Y4
Ap6/1
In/2/2/
965/
pt.1
1011
88/4
Ap6/1
In2/2
965
pt.1

INDEPENDENT OFFICES APPROPRIATIONS FOR 1965

KSU LIBRARIES
A11900 458201

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON INDEPENDENT OFFICES

ALBERT THOMAS, Texas, *Chairman*

JOE L. EVINS, Tennessee
EDWARD P. BOLAND, Massachusetts
GEORGE E. SHIPLEY, Illinois
HAROLD C. OSTERTAG, New York
CHARLES RAPER JONAS, North Carolina
LOUIS C. WYMAN, New Hampshire

G. HOMER SKARIN, *Staff Assistant to Subcommittee*

PART 1

Civil Aeronautics Board
Civil Service Commission
Federal Aviation Agency
Federal Communications Commission
Federal Home Loan Bank Board
Federal Power Commission
Federal Trade Commission
National Capital Housing Authority
Renegotiation Board
Securities and Exchange Commission
Selective Service System
Veterans Administration

Printed for the use of the Committee on Appropriations

KANSAS STATE UNIVERSITY LIBRARY
MAY 26 196
MANHATTAN, KANSAS

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

INDEPENDENT OFFICES APPROPRIATIONS FOR 1965

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON INDEPENDENT OFFICES

ALBERT THOMAS, Texas, *Chairman*

JOE L. EVINS, Tennessee
EDWARD P. BOLAND, Massachusetts
GEORGE E. SHIPLEY, Illinois
HAROLD C. OSTERTAG, New York
CHARLES RAPER JONAS, North Carolina
LOUIS C. WYMAN, New Hampshire

G. HOMER SKARIN, *Staff Assistant to Subcommittee*

PART 1

Civil Aeronautics Board
Civil Service Commission
Federal Aviation Agency
Federal Communications Commission
Federal Home Loan Bank Board
Federal Power Commission
Federal Trade Commission
National Capital Housing Authority
Renegotiation Board
Securities and Exchange Commission
Selective Service System
Veterans Administration

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE
29-287 WASHINGTON : 1964

KANSAS STATE UNIVERSITY LIBRARY
MAY 26 196
MANHATTAN, KANSAS

COMMITTEE ON APPROPRIATIONS

CLARENCE CANNON, Missouri, *Chairman*

GEORGE H. MAHON, Texas
HARRY R. SHEPPARD, California
ALBERT THOMAS, Texas
MICHAEL J. KIRWAN, Ohio
JAMIE L. WHITTEN, Mississippi
GEORGE W. ANDREWS, Alabama
JOHN J. ROONEY, New York
J. VAUGHAN GARY, Virginia
JOHN E. FOGARTY, Rhode Island
ROBERT L. F. SIKES, Florida
OTTO E. PASSMAN, Louisiana
JOE L. EVINS, Tennessee
EDWARD P. BOLAND, Massachusetts
WILLIAM H. NATCHER, Kentucky
DANIEL J. FLOOD, Pennsylvania
WINFIELD K. DENTON, Indiana
TOM STEED, Oklahoma
JOSEPH M. MONTOYA, New Mexico
GEORGE E. SHIPLEY, Illinois
JOHN M. SLACK, JR., West Virginia
JOHN LESINSKI, Michigan
JOHN J. FLYNT, Georgia
NEAL SMITH, Iowa
ROBERT N. GIAIMO, Connecticut
JULIA BUTLER HANSEN, Washington
EDWARD R. FINNEGAN, Illinois
CHARLES S. JOELSON, New Jersey
JOSEPH P. ADDABBO, New York
JOHN J. McFALL, California

BEN F. JENSEN, Iowa
WALT HORAN, Washington
GERALD R. FORD, JR., Michigan
HAROLD C. OSTERTAG, New York
FRANK T. BOW, Ohio
CHARLES RAPER JONAS, North Carolina
MELVIN R. LAIRD, Wisconsin
ELFORD A. CEDERBERG, Michigan
GLENARD P. LIPSCOMB, California
JOHN J. RHODES, Arizona
JOHN R. PILLION, New York
WILLIAM E. MINSHALL, Ohio
ROBERT H. MICHEL, Illinois
SILVIO O. CONTE, Massachusetts
WILLIAM H. MILLIKEN, JR., Pennsylvania
EARL WILSON, Indiana
ODIN LANGEN, Minnesota
WILLIAM HENRY HARRISON, Wyoming
BEN REIFEL, South Dakota
LOUIS C. WYMAN, New Hampshire

KENNETH SPRANKLE, *Clerk and Staff Director*

INDEPENDENT OFFICES APPROPRIATIONS FOR 1965

TUESDAY, FEBRUARY 4, 1964.

NATIONAL CAPITAL HOUSING AUTHORITY

WITNESSES

WALTER E. WASHINGTON, EXECUTIVE DIRECTOR
EDWARD ARONOV, ASSISTANT EXECUTIVE DIRECTOR
WILLIAM R. SIMPSON, JR., GENERAL COUNSEL
HARVEY V. EVERETT, DIRECTOR OF MANAGEMENT
HENRY F. DAVENPORT, DIRECTOR OF PROJECT DEVELOPMENT
HERMAN EDWARDS, BUDGET OFFICER
HAMILTON SMITH, DEMONSTRATION PROJECT COORDINATOR

OPERATION AND MAINTENANCE OF PROPERTIES

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operation and maintenance of properties (program costs, funded)	40	43	37
Change in selected resources [1]	−1		
Total obligations	40	43	37
Financing: New obligational authority (appropriation)	40	43	37

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1962, $3,000; 1963, $2,000 1965, $2,000.

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation: Permanent positions	26	26	21
12	Personnel benefits	2	2	2
23	Rent, communications, and utilities	7	7	7
25	Other services: Extraordinary maintenance	1	1	2
26	Supplies and materials	4	5	4
31	Equipment		2	1
	Total costs	40	43	37
	Change in selected resources	−1		
	Total obligations	40	43	37

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	5	5	4
Average number of all employees	5	5	4
Employees in permanent positions, end of year	5	5	4
Employees in other positions, end of year	0	0	0
Average GS grade	6.8	6.8	6.8
Average GS salary	$6,612	$6,914	$6,973
Average salary of ungraded positions	$4,887	$4,942	$4,958

Mr. THOMAS. Gentlemen, we have with us this morning the National Capital Housing Authority.

It is good to have the opportunity to welcome this distinguished group of gentlemen. We are always delighted to have you.

We have Mr. Walter E. Washington, the Executive Director; Mr. Edward Aronov, Assistant Executive Director; Mr. William R. Simpson, General Counsil; Mr. Harvey V. Everett, Director of Management; Mr. Davenport, Director of Project Development, and Mr. Edwards, the budget officer.

Mr. Shipley will direct the examination and he will go into your needs here.

It is always good to discuss your problems with you. All of you know your subject, you know your lesson, know what your job is all about, and you know your problems. That makes it all the more interesting and worthwhile.

Mr. Shipley, will you proceed?

Mr. SHIPLEY. Thank you, Mr. Chairman.

Do you have a general statement, Mr. Washington, or anything you wish to present first?

GENERAL STATEMENT

Mr. WASHINGTON. Yes, sir. I think the general statement has been submitted here in the material and I need not hold up the committee unduly with that. We have justified $37,000 in our statement on page 2.

Mr. SHIPLEY. It is down $6,000 from last year; that is right.

Mr. WASHINGTON. Yes, sir. This is predicated upon the removal of 23 units in our Hopkins Place project. This project was one of the first reclamations of alleys in the Southeast. This project now is surrounded by approximately 500 new dwellings. Hopkins Place is a project which consists of some dwellings which are as old as 1830, built in the 1830's. A portion of them, however, were built around the early 1930's when we got started with our work.

All of them are regarded as in need of redevelopment and we propose to remove the 23 and, instead, erect 20 units; although very recently the Planning Commission, in looking at the plan, has recommended we take some additional units in that same block to fill out the block. These units are substandard and the idea is to remove those and create about 100 new units.

NUMBER OF UNITS AND APPLICATIONS

Mr. SHIPLEY. Last year you had approximately 30 facilities consisting of 7,917 separate units.

Mr. WASHINGTON. Yes, sir.

Mr. SHIPLEY. At that time I believe you also had around 7,000 applicants for housing?

Mr. WASHINGTON. Yes, sir.

Mr. SHIPLEY. How many units do you have constructed as of today and how many applicants do you have to date?

Mr. WASHINGTON. To date we have 7,819 units under management. We have another 736 units under construction, and 1,718 units and 12 projects in various stages of development.

As of the end of the fiscal year we reported, and the figure now is substantively the same, 6,487 families on our waiting list.

Of that number approximately 65 percent require units of three bedrooms or more. This large family need is one of the critical needs in our city.

Mr. SHIPLEY. We will go into that a little later.

PROGRAM RESERVATIONS

How many units was the District allotted in 1964 out of the 35,000?

Mr. WASHINGTON. I don't know that I can follow that by year. What we received in June of 1963 was a one thousand program reservation, and that is the last reservation we received.

I might say that the reservations, in connection with our local picture, have not moved on an even year-by-year basis. They have been related more to our ability to find sites, and thus we have received program reservations in 1950, 1956, 1961, and 1963.

Mr. SHIPLEY. How many are high rise and how many of these are low rise?

Mr. DAVENPORT. I haven't that exact breakdown.

SITE PROBLEM

Mr. SHIPLEY. Are you not attempting to get away from the high rise construction and get into more low rise?

Mr. WASHINGTON. We are. We hope we can. Our land problem in the District is so severe, principally because of the congressional limitations, really constitutional limitations on the District, and the land costs are coming in at such high prices that I am caught in the middle between a desire to build more low rise to accommodate the waiting list and the relocation activities, and the costs of the sites. We are just about out of vacant land in the city. I think our last figure shows that out of some 39,000 acres there were only 738 acres of vacant land left in the city.

Mr. SHIPLEY. You are saying it does not look as though you will be able to do what you would like to, that is, to stick to the low rise?

Mr. WASHINGTON. I am saying exactly that, sir.

COST OF NCHA AND PRIVATE CONSTRUCTION

Mr. SHIPLEY. How does your cost per unit compare with that of normal housing?

Mr. WASHINGTON. I think the costs are fairly comparable.

Mr. SHIPLEY. Is it not somewhat higher in the overall program?

Mr. WASHINGTON. We thought that to be the case, but a recent check with five projects under FHA and five of ours show a pretty close cost relationship.

For instance, in our private units deemed comparable, FHA's high was $14.10 per square foot and our high was $13.53. That is for project DC–1–36, which included 136 units for the elderly.

FHA's low was $9.11 per square foot and our low was $10.30, so they came out pretty much the same. These are units which NCHA and FHA felt were comparable.

TURNOVER RATE

Mr. SHIPLEY. Is your rate of turnover this year higher than last year? What is the turnover rate?

Mr. WASHINGTON. I think our turnover is a little less than last year.

Mr. SHIPLEY. It was about 12 percent last year, I understand.

Mr. WASHINGTON. It is about 11 to 12 percent this year. It has not varied much. The turnover is in the two-bedroom units which is our heaviest supply. We get very little turnover in the four- and five-bedroom units.

Mr. SHIPLEY. What is the reason for this?

Mr. WASHINGTON. The smaller family compositions are the normal mobile group in the community, privately and publicly, and this is the point at which you have the largest number of units so that your percentage is greater.

Our two-bedroom units comprise 50 percent of our total units. As I indicated, these are small families and there are opportunities elsewhere in our community for the families.

Mr. SHIPLEY. If you have not done so, I think from the interest that I have found here, particularly in the Congress, could you furnish the committee with a breakdown for the record regarding the main reasons for the turnover? Why are they leaving these facilities?

I know you have problems in this area and I would like those reasons spelled out for the record.

Mr. WASHINGTON. Yes, sir; we have a breakdown in the material but we shall supply this for the record as closely as we can.

You realize in some cases families move without giving us the reasons. In most cases, however, we do get the reason, and we shall be glad to supply this for the record.

Mr. SHIPLEY. It is a question always asked and it would help us.

(The information requested follows:)

Tenant reasons for vacating NCHA housing, fiscal year 1963

	Number	Percent of total
Overincome	74	9.3
Lease violation	60	7.5
Nonpayment of rent	181	22.7
Leaving city	48	6.0
Family separated (divorce, etc.)	22	2.8
Illness or death	66	8.3
Space needs	26	3.3
Location of property	9	1.1
Rent too high	11	1.4
Authority regulations	2	.3
Without notice	90	11.3
Moved without stating reason	207	26.0
Total	796	100.0

ELDERLY UNITS

Mr. SHIPLEY. Another question which has been asked is, What percentage of your occupancy is for older folks?

Mr. WASHINGTON. We have a breakdown on page 7 of the material which we furnished which gives a breakdown for the elderly tenants at 10.4, or 772 persons and families. This is shown on page 7.

Mr. SHIPLEY. With regard to this problem of housing the so-called older folks, are the two facilities that you have under construction strictly for this age group and have they been completed?

Mr. WASHINGTON. No, sir; Carroll Apartments is about 75 percent, located across from the Navy Yard, and then Kentucky Courts in Southeast, is about 65-percent complete. They should open sometime during 1964 calendar year.

In both cases these are units which have been designed with special facilities, grab bars, and a number of other features particularly for the elderly. These will be the first two we will have tried in this category.

I might say we had the very fine assistance of the Department of Agriculture's Agricultural Research Service through their demonstration unit in planning the kitchens particularly because this is the point of danger. The stoves and other features in the kitchen were studied, analyzed, and we have come up with some good designs as a result of their recommendations.

They have now printed this for use throughout the country.

WELFARE TENANTS

Mr. SHIPLEY. How many cases do you have where Welfare is picking up the rent? Do you have a breakdown?

Mr. WASHINGTON. Yes, sir; on the same page, page 7 of our material. We have 1,415 families receiving assistance from Public Welfare which comprises 18 percent of our total.

Mr. SHIPLEY. Is that percentage picking up or going down?

Mr. WASHINGTON. That percentage has gone down from last year. It was around 21 or 22 percent. This decrease is in direct relation to the activities of the public welfare agency in seeking out ineligibles.

Mr. SHIPLEY. How many units do you have or are you responsible for under title I and also under title II?

Mr. WASHINGTON. At the present time we have 96 units under title I and 7,825 units under title II.

Mr. SHIPLEY. For the record, give us the percentage of the administrative cost per unit of housing.

Mr. WASHINGTON. Yes, sir.

Mr. SHIPLEY. Do you have that available?

Mr. WASHINGTON. Yes.

Mr. EDWARDS. That is on page 10.

Mr. WASHINGTON. Page 10 is a complete budget breakdown under our title II which is the bulk of the program showing receipts, expenditures, and all of the detail related to the budget.

Mr. SHIPLEY. We shall insert that in the record in a moment.

MANAGEMENT AIDS

You have added certain personnel to increase efficiency of the entire Authority as a whole. Personnel were added to settle problems of delinquency and property damage which is quite serious. How effective have these personnel been in solving the problem? Have you come up with something concrete they have accomplished in this field?

This is a national problem and I would like to know what you have done about it here.

Mr. WASHINGTON. We cannot say at this stage. We have had the new personnel on for only a short period, less than 6 months.

Mr. SHIPLEY. How many people do you have?

Mr. WASHINGTON. There are 10 people assigned, 1 to each area to work in direct contact with the families, organizing, assisting them, and so on. This has been one of the problems in high-rise management. Where you have eight stories of open hallways, elevators exposed, and no guard service you have a real problem.

These employees have worked with the families, organized the families by stairwell and by building. They have helped to avoid outsiders coming in and damaging the facilities, vandalism, and particularly outsiders coming into the hallways and breaking lights, windows, and perpetrating other minor acts of this kind.

At this point we would not want to say too much about the effect of the new management aids because I think it is far too early. We have put them on in lieu of maintenance personnel in the hope we can prevent the problems before they arise. We are watching this experience very closely.

We have personnel, basically younger people who came off the Federal entrance register and we put them through training. We brought in the local universities and others to assist in the training so they could become proficient in working directly with the families.

Mr. SHIPLEY. What kind of training do they receive? What are the qualifications for these people?

Mr. WASHINGTON. I think the Federal entrance examination with its broad coverage of background is principally what we have utilized, and the combinations under that program have varied. Some have been strong in social work, some strong in business administration, and we have taken a variety of backgrounds and studied them to see which combination would come out most successfully.

The inservice training has involved broad exposure to problems of people. Through the social work departments of universities, and through various people in local agencies working with families daily, bringing this experience to bear on the younger employees, we hope this has equipped them with the ability to make a real effort in the area of prevention and motivation.

TENANT INCOMES

I think it is important to point out that in the early days we did not envision the fact that 63.7 percent of our total families would be making $3,000 a year or less. If you recall, the poverty level is at $3,000 presumably. We have 63 percent of the families in our program today that are below the poverty level.

Of the families, 35.4 percent, or 2,094 of them, are receiving less than $2,000. We have 554, and these are principally elderly with small pensions, with $1,000 or less.

PROPERTY DAMAGE AND VANDALISM

Mr. SHIPLEY. What percentage can you give us regarding the property damage? What is the maintenance percentage?

Mr. WASHINGTON. That is difficult to say.

Mr. SHIPLEY. Is it extensive?

Mr. WASHINGTON. I do not think it is extensive. Also, it is spotty in terms of the nature of the buildings.

For instance, where we have the low-rise buildings, and I am sorry we have to get back to that, where you have a low-rise building with a family in residence with a little front and back yard, this is a manageable proportion and it is really open to the eye. You can work with it and you have a minimum amount of vandalism.

However, where you get the larger buildings, five and eight stories high, closed in, hallways exposed, this is not as manageable a proportion and you are subject to many things.

For instance, we opened an eight-story building across from the navy yard. We had children using the elevators. It became an attraction in the community.

We have a hallway there that is 400 feet long. Kids are prone to come in and use it as a natural and attractive play area. This kind of structure lends itself, as open as it is, to kids and others. It is a 24-hour and 12-month facility. It is warm in the winter and cool in the summer. It is the nature of the building which attracts problems and I would suspect the percentage of damage is around 15 percent if I should hazard a guess of damage related to vandalism in such buildings.

RESIDUAL RECEIPTS, RESERVES, AND SUBSIDY

Mr. SHIPLEY. Would you care to discuss with us here the residual receipts and reserves and subsidy?

Mr. WASHINGTON. Mr. Edwards, our budget officer, can give you a clear picture of just what this is.

Mr. SHIPLEY. We shall insert it in the record at this point.

(The information follows:)

Residual receipts, reserves, and subsidy

	Actual				
	1960	1961	1962	1963	1964 (6 months)
Residual receipts	$225,400	$480,640	($183,930)	$67,390	$231,960
Applied to:					
Reserves	6,360	480,640	(183,930)	67,390	231,960
Reduce PHA contribution	219,040				
Reserves:					
Actual accumulated	1,127,490	1,608,130	1,424,200	1,491,590	1,723,550
Maximum permitted	1,127,490	1,654,120	1,816,560	2,061,860	2,205,000
Subsidy:					
Amount available		3,237,281	3,259,623	3,264,887	
Amount used		3,164,546	3,239,013	3,264,887	
Percentage used		98	99	100	

Mr. EDWARDS. This statement we furnished you shows for fiscal years 1960 through 1964, first 6 months. Our residual receipts for each year show a surplus of $225,000, $480,000, a deficit of $183,000, and a surplus of $67,000 for 1963, and $232,000 for the first 6 months of this fiscal year.

The first year, 1960, $6,000 was put in reserve; $219,000 was used to reduce the PHA contribution.

In each of the succeeding years all the residual receipts went into reserves.

In 1960 our actual reserve was the maximum, $1,127,000.

At the end of 1963 our actual reserve was $1,491,000, and our maximum was $2,061,000. We have not achieved the maximum reserve since 1960. We are working on that now in 1964.

ACCELERATED MAINTENANCE PROGRAM

Mr. SHIPLEY. What was the reason for that?

Mr. EDWARDS. A program was instituted right after President Kennedy took office in 1961 for accelerated maintenance. We have been urged—and we did—to accelerate our maintenance. We did so to the extent of over $1 million. We spent more for maintenance that we had been accustomed to and more than we are spending now.

Mr. SHIPLEY. What percentage more?

Mr. EDWARDS. We accelerated it by between one-half million dollars and $1 million.

Mr. SHIPLEY. Up to $1 million?

Mr. EDWARDS. If you add a half million dollars to these reserves we would be at our maximum.

Mr. WASHINGTON. Further on that point, both the Executive Office and the Congress had approved an accelerated public works program as an antirecession measure. We participated in that up to the extent of, as Mr. Edwards points out, over $1 million. These funds were spent to make certain repairs on the older projects, those over 20 and 22 years old. It was used to correct some of the war-caused deficiencies, deficiencies built in during the war when certain materials were not available, plastics and other materials were used.

We had the serious problem of buying some 3,000 refrigerators, largely because the time has come in this city as well as others where you cannot get 50 pounds of ice the way we used to be able to for the old iceboxes such as we provided.

Moreover, we were using coal and a number of our families could not get coal, and the coal was a hazard as well as a maintenance problem because of the creation of dirt. We converted some 1,100 units from coal to automatic gas. This is where some of the funds were utilized.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

REFRIGERATORS PURCHASED UNDER ACCELERATED PUBLIC WORKS PROGRAM

Mr. JONAS. Did I understand you to say you charged the refrigerators to improvements rather than capital?

Mr. EDWARDS. No; they are capital. We capitalize them.

Mr. JONAS. It would not be charged to a maintenance item, would it?

Mr. EDWARDS. Operating improvement.

Mr. JONAS. I thought he was referring to maintenance.

Mr. WASHINGTON. Accelerated maintenance program. This is what he was referring to.

Mr. JONAS. How much do you spend for refrigerators?

Mr. EDWARDS. $300,000.

Mr. JONAS. That would not be an antirecession proposition, would it?

Mr. WASHINGTON. Yes; it was an accelerated purchase.

Mr. JONAS. You mean to take care of General Electric, Westinghouse, and the rest of the manufacturers of refrigerators? I can see why you might need the refrigerators to improve the property but I do not follow you when you say it falls in an accelerated public works program.

Mr. WASHINGTON. That was one of the items that was approved in the list.

Mr. JONAS. Who approved it?

Mr. WASHINGTON. PHA approved it.

Mr. JONAS. As an extraordinary program to accelerate employment?

Mr. EDWARDS. It is an operating improvement.

Mr. WASHINGTON. It was one of the items under the acceleration that we put in.

Mr. JONAS. And you charged it to maintenance?

Mr. WASHINGTON. No, sir.

Mr. OSTERTAG. Capital.

Mr. WASHINGTON. This is a capital charge.

Mr. JONAS. You listed it as a maintenance charge?

Mr. EDWARDS. Refrigerators are operating improvements which are capitalized items. Both extraordinary maintenance and operating improvements were expenditures made in this accelerated maintenance program.

Mr. OSTERTAG. Do other appliances follow the same category?

Mr. EDWARDS. We capitalize equipment.

Mr. OSTERTAG. Other equipment is capital improvements?

Mr. EDWARDS. Maintenance of the equipment is strictly maintenance but the equipment itself is capitalized.

Mr. JONAS. That is what I wanted to explore.

METERING UTILITIES

Mr. SHIPLEY. Are all your individual units metered so far as utilities are concerned? How do you keep people from leaving their lights on all night?

Mr. EVERETT. Those units where we provide a gas furnace and automatic gas heat, they are check metered. We buy gas through a master meter and check it back to the tenants on a predetermined allowance per quarter.

At the end of the quarter if they have used in excess of the amount we allow then we backcharge them on the rate for that excess consumption.

Mr. SHIPLEY. Do you have any trouble collecting it?

Mr. EVERETT. Not at present, no, sir.

FAILURE TO PAY RENT

Mr. SHIPLEY. How about failure to pay rent? Is this up or down from previous years?

Mr. EVERETT. It has slightly increased in the dollar amount. One of the reasons is that the average rent is a little higher than it has been over the past several years, but the actual number of nonpayments has not materially increased. Rent collection is difficult.

Mr. SHIPLEY. I am sure it is.

DEMONSTRATION PROGRAM

Let us discuss page 12. I was particularly interested in what you say here—as of June 30, 1963, there is an example of 7 families out of an anticipated total of 50 families which have moved into large private housing with 4 to 6 bedrooms.

I wish the committee would note this. They rent these from private landlords ranging from $115 a month to $155 monthly. Then you turn around and sublease these for $49 to $84.

Would you describe this program a little bit?

Mr. WASHINGTON. Yes, sir.

Mr. SHIPLEY. This seems rather impossible to me, but go ahead.

Mr. WASHINGTON. This is one of the demonstration programs which has been developed under section 207. We were authorized to lease from private landlords. As of today we have 50 units leased.

Mr. SHIPLEY. Are they all in one area or scattered?

Mr. WASHINGTON. Scattered throughout the city, principally in the area east of Rock Creek Park and principally in conservation areas, the Northwest, Cardozo, and Northeast, centering more in town where rents are at least within the range of this program to finance.

I would say they group 30 of them in an area about a mile radius from the Capitol.

Mr. SHIPLEY. Go ahead, please.

Mr. WASHINGTON. We have 50 families now in. The best we can do now is to present the facts. The experience is not sufficient at this point to make concrete conclusions, for this is a 2-year program. We are in about the fourth or fifth month of it.

The funds for subsidy were made available through the demonstration. The social work assistance was paid for by the Junior League of Washington, the Washington Real Estate Board, and the Inter-Church Committee on Urban Renewal.

The Junior League put up $10,000, the Washington Real Estate Board $1,000, and the Inter-Church Committee on Urban Renewal has committed $2,000. This has enabled us to contract with the Family and Child Services for direct assistance to the families in adjustment.

DEMONSTRATION RENT AND SUBSIDY

At the present time the average rent with the landlord is $138.09.

Utilities paid by NCHA are estimated at $8.90, making a contract rent of $146.99. We can only estimate utilities at this point because we have only a few months of operating experience in this program.

Average rent paid by the tenant is $66.14, leaving an average subsidy of $80.85.

Mr. THOMAS. This program is Dr. Weaver's program. There was a $5 million authorization. Last year we gave them $1,200,000.

You have 50 of these demonstration projects here?

Mr. WASHINGTON. That is right.

AMOUNT ALLOCATED FROM HHFA FOR DEMONSTRATION PROJECTS

Mr. THOMAS. How much money have you allocated on an annual basis for the 50 projects?

Mr. WASHINGTON. $194,000 roughly for the 2-year period.

Mr. THOMAS. How much is that per house per year?

Mr. WASHINGTON. It is 30 months, Mr. Chairman.

Mr. THOMAS. How much is that per house per year? It is about $950 a year subsidy in round figures; it is not?

Mr. WASHINGTON. That is about right.

UTILITY COSTS

Mr. THOMAS. Who pays the utility bills?

Mr. WASHINGTON. The tenant pays a portion and the Housing Authority pays a portion.

Mr. THOMAS. Who picks up the heating check?

Mr. WASHINGTON. The tenant picks up part and we pick up part of it.

Mr. THOMAS. How much does the tenant pick up and how much does Housing pick up?

Mr. WASHINGTON. Mr. Smith, who is the coordinator of that program, can give us this detail.

Mr. SMITH. The tenant pays for the electricity. We pay for the heat and also the gas for cooking.

Mr. THOMAS. How are the buildings heated?

Mr. SMITH. Some by gas, some by oil, and some by coal. Those heated by oil get a discount from GSA.

Mr. THOMAS. A discount from GSA?

Mr. SMITH. Yes.

Mr. THOMAS. You mean GSA buys it wholesale. Who delivers it?

Mr. SMITH. A private contractor. We get it for an average of 10 cents a gallon.

Mr. THOMAS. It was part of GSA's program to help other Government agencies do the procuring? We ran into it in the New York Housing Authority, I believe.

How much does the Housing Authority pick up on the gas bill or the oil bill for heating?

Mr. SMITH. The gas, oil, and coal are all included in the tenant's rent. We collect from them and then pay from these receipts for the utilities.

Mr. THOMAS. What is the average income of the families living in one of these big houses?

Mr. SMITH. Roughly around $4,000.

Mr. THOMAS. Under the formula what is the total rent?

Mr. SMITH. Average rent comes to $66.14 a month.

Mr. THOMAS. Are you still working on the 20-percent formula of income for rent?

Mr. SMITH. Not in this program because of the fact you could go up to the higher rent. If you are paying, say——

Mr. THOMAS. What portion of their income do you charge them in this program?

Mr. SMITH. The same rent schedule usually, around 20 percent.

Mr. THOMAS. If he has $4,000 he is then paying around $70 a month rent; is that right? You gave a figure of $66.

Mr. WASHINGTON. $66.14.

Mr. THOMAS. That is about right.

How about the utility bill? That is as much as the total rent bill, is it not?

Mr. SMITH. We average out to a 12-month period and it levels it off when you consider the summer months.

Mr. THOMAS. The gas companies and oil companies want their bills paid on a monthly basis. In one of those big five-bedroom houses you could not have a heating bill much under $70 or so a month. Who picks up that check and when is it picked up?

Mr. SMITH. You have to pay it as you are billed but in the summertime you would be collecting rent for utilities and paying out nothing for it.

Mr. THOMAS. How much do you collect in the month of August for a gas bill when he has very little gas bill other than for cooking?

Mr. SMITH. The amount he pays in his rent is $9 a month generally, based on our present estimates.

Mr. THOMAS. This is not very helpful. What I want to know is how much money you are geting from Dr. Weaver. I want a breakdown of it.

REHABILITATION OF DWELLINGS

I want to know if the houses have been rehabilitated before they move into them and how much that cost.

In Dr. Weaver's program we developed this and they have spent money remodeling these houses before they turned them over to you.

Mr. SMITH. The owners have and we have records here to show that. They have spent some $3,000 to $4,000 a unit.

Mr. THOMAS. Why don't you put them in the Mayflower Hotel? Won't it be cheaper before you get through?

Mr. SMITH. Some were in horrible shape, sir.

Mr. WASHINGTON. This repair, you realize, was done by the private owner without expense to the Housing Authority at all.

Mr. THOMAS. It may not have been expense to the Housing Authority but it was to the Housing and Home Finance Agency.

Mr. WASHINGTON. No, sir. This is another program. If I might say, Mr. Chairman, this program is simply a lease program where we lease a unit from a private owner after he has put it in shape, or at least put it up to housing code standards.

Mr. THOMAS. Are you sure about that?

Mr. WASHIINGTON. I am positive, Mr. Chairman, that this is the only——

SUBSIDY COST OF DEMONSTRATION PROGRAM

Mr. THOMAS. Let us get back to what it cost in the way of subsidy either in the form of rent, utilities, furniture, or whatnot in one of these houses. What does it figure out on a four-bedroom house?

Mr. WASHINGTON. This is the breakdown on an average. If you want to take one house——

Mr. THOMAS. Average is good enough. You have 50 projects. How many are occupied now?

Mr. WASHINGTON. As of yesterday, all of them. We had one that was waiting on repair and awaiting code inspection.

Mr. THOMAS. How much money did you get from Dr. Weaver?

Mr. WASHINGTON. $194,000.

Mr. THOMAS. For a 30-month period?

Mr. WASHINGTON. Yes.

Mr. THOMAS. Go ahead.

Mr. WASHINGTON. The average rent paid to the landlord is $138.09 which would include water.

UTILITIES COSTS

The average utility, over a 12-month period paid by NCHA, is estimated at $8.90.

The average rent paid in utilities by the tenant is $5.10.

Mr. THOMAS. That is $13 a month for utilities?

Mr. WASHINGTON. Actually $14 for heating and electricity.

Mr. THOMAS. In a four- or five-bedroom house?

Mr. WASHINGTON. Yes.

Mr. THOMAS. You know it is impossible.

Mr. WASHINGTON. That is our experience.

(NOTE.—The agency subsequently supplied the following for the record: In the regular low-rent program, $15.86 for all utilities in 1962 and $17.29 for 1963.)

Mr. THOMAS. It makes no difference what your experience is. Your experience and what goes on is something else. You know it cannot be done.

Mr. OSTERTAG. Is that central heat?

Mr. WASHINGTON. Individual heat.

Mr. OSTERTAG. And you are including heat?

Mr. WASHINGTON. Yes.

Mr. THOMAS. Heat, light, and water.

Mr. WASHINGTON. Water is paid by the owner. These are still in the owner's hand. Water is paid by the owner in most cases.

Mr. THOMAS. Heat and light is paid?

Mr. WASHINGTON. Yes.

Mr. THOMAS. $14 a month.

Mr. WASHINGTON. This is not too far off, Mr. Chairman.

(NOTE.—The agency subsequently indicated that this referred to their title II experience.)

Mr. SHIPLEY. Mr. Chairman, I would like to interrupt, I don't know how in the world this can be true. I lived in a house in Vienna, Va. My heat bill, in a very small house, runs $35 to $38.

Mr. WASHINGTON. How many months, though? Over 12 months?

Mr. SHIPLEY. Yes. My home in Illinois is about similar to what you are using here. We have five bedrooms. My gas bill there runs around $75 a month.

Mr. OSTERTAG. Do you have air conditioning?

Mr. WASHINGTON. No, sir.

Mr. THOMAS. Give us a wrap-up figure.

Mr. WASHINGTON. This is what our experience up to now is showing, Mr. Chairman. You must realize we have not been through an entire winter.

Mr. THOMAS. What is the overall amount of subsidy, heat, light, gas, subsidy of rent, and so on?

Mr. WASHINGTON. Overall amount of subsidy is $80.85 plus the $8.90 representing a combination of rent subsidy and estimated utility costs to the Government.

Mr. OSTERTAG. This is a month?

Mr. WASHINGTON. Yes.

Mr. THOMAS. Do you furnish any furniture or cooking utensils?

Mr. WASHINGTON. No, sir; we do not. Some of the families have needed some furniture and the Salvation Army and other agencies through the work of the social worker has helped.

Mr. THOMAS. In round figures it is around $90 a month subsidy per family. Is that right?

Mr. WASHINGTON. That is about right.

TITLE II SUBSIDY FOR LARGER FAMILIES

Mr. THOMAS. What is it under title II for the large families?

Mr. ARONOV. This is based on various assumptions, but for a four-bedroom unit we would figure an average subsidy of $92.54 and for a five-bedroom unit an average subsidy of $104.07.

Mr. THOMAS. Practically the same.

PURPOSE OF DEMONSTRATION PROGRAM

Why have this experiment? What is the basis of it?

Mr. ARONOV. If I may reply to that to the extent I am able, there are a few things that we believe may be demonstrated with this experiment. No. 1, this is a quick way, a relatively quick way, of obtaining housing for large families.

No. 2, units which previously had been substandard in many cases are going to be repaired by the landlords and put back on the market as standard units.

In fact, we have run into some situations——

Mr. THOMAS. I question that. In the first place, Dr. Weaver has only a 3-year authority. What is the average amount of money that the landlord spends on rehabilitating his house? I still have back in my mind that Weaver picked up some of that.

Mr. WASHINGTON. Not in this program.

Mr. THOMAS. Go ahead. What is the figure? What does the landlord pay?

Mr. ARONOV. It has varied from no more than $100 for the unit up to $4,200.

Mr. THOMAS. What can you do with a five-bedrom house for $100? You can barely wash windows for that.

Mr. ARONOV. It may be that the house at the point the landlord wishes to rent it to us is already meeting code standards and is all right.

Mr. THOMAS. Where are these units located? You have not come up with anything new yet now.

Mr. ARONOV. New?

Mr. THOMAS. Which warrants your experiment. I have not seen anything yet.

Mr. SIMPSON. We have not had to sue anybody for nonpayment of rent as yet.

Mr. THOMAS. Maybe I am wrong. What have you shown now? One, it is a little quicker method.

Mr. ARONOV. That is right.

LOCATION OF DEMONSTRATION UNITS

Mr. THOMAS. Where are you located?

Mr. ARONOV. In the Northwest, Northeast, and Southeast.

Mr. THOMAS. Are these in areas where the residents own their own homes, lease them at a high price, low price?

Mr. ARONOV. These are predominantly conservation neighborhoods.

Mr. THOMAS. What are those?

Mr. ARONOV. Neighborhods that have been declared as conservation areas by the District so that the Department of Licenses and Inspections of the District is scheduled to come into neighborhod and examine each of the dwellings to insure that the dwellings conform with the code.

Mr. THOMAS. What you are saying in understandable language is that it is in a part of town that is rapidly going down and is in a transition period from residential to quasi-business. Is that right?

Mr. ARONOV. It could be put that way.

Mr. THOMAS. Old parts of town?

Mr. ARONOV. Yes, sir; however, if I may I would prefer to put the emphasis the other way and say these are neighborhoods which may be retrieved and can be retrieved if they were to be given an intensive amount of attention and if an agency, for instance like ours, comes in— and this is one of the things we found, sir—if an agency like ours comes in and does a job——

Mr. THOMAS. We have a lot of Government agencies whose specific job it is to go into the housing field on a commercial basis.

Mr. ARONOV. That is right.

Mr. THOMAS. The FHA has a big rehabilitation program. For your information it is not going big. They loan up to $10,000 on the same basis as new construction, 20- and 25-year payments. It is not going very good.

Some of the residential sections throughout many of the major cities in the United States are taking advantage of it.

Anyway, that is their job and not yours.

Go ahead.

JUSTIFICATION OF THE ESTIMATES

Mr. SHIPLEY. The cost of operating 96 units in 1964 under title I was $43,000, or $448 each.

The budget estimate for 73 units to be operated in 1965 is $37,000, or $507 a unit.

I don't know how you can compare that with the justifications you have given us on page 12 with regard to this 50-family example.

Mr. Reporter, please insert pages 2 through 12 as part of the record.

(The pages follow:)

BUDGET ESTIMATE FOR FISCAL YEAR 1965, $37,000

General statement

The National Capital Housing Authority was established in 1934 under the District of Columbia Alley Dwelling Act (48 Stat. 930, amended by Public Law 733, 75th Cong). In accordance with this law the Authority is the local public housing agency in the District of Columbia and has as its objective the assurance of an adequate supply of dwellings for families of low income whose housing needs are not met by private enterprise. The Authority seeks to provide dwellings without profit or loss except for subsidy provided by law to reduce rents below cost levels.

Summary of the two programs

The Authority operates two housing programs, known as title I and title II:

Dwelling units as of June 30, 1963

	Under management	Under construction	Preconstruction	Total
Title I	96			96
Title II	7,825	736	1,422	9,983
Total	7,921	736	1,422	10,079

The title II program is supervised by the Public Housing Administration and the subsidy requirements are included in the consolidated estimates of that agency. However, details of the title II program are furnished in this title I budget estimate for informational purposes.

The title I program now consists of 96 low-rent housing dwellings constructed under the District of Columbia Alley Dwelling Act. After June 30, 1964, we plan to demolish the 23 units known as Hopkins Place SE., and to build 20 units on the same site under our title II development program. Eleven of the units to be demolished are old housing which was rehabilitated in 1934.

Our budget estimate for operation of the remaining 73 units during fiscal year 1965 is $37,000.

Rental receipts from all title I housing are deposited monthly in the Treasury.

In support of our estimate, we offer the following program performance schedule over a 5-year period:

Title I

	1963 actual	1964 estimate	1965 estimate	1966 estimate	1967 estimate
Units	96	96	73	73	73
Receipts	$45,674	$47,000	$39,000	$39,000	$39,000
Obligations	39,861	43,000	37,000	37,000	37,000
Net income	5,813	4,000	2,000	2,000	2,000

Justification

After June 30, 1964, the expiration of the present fiscal year, it is planned to vacate the 23 units known as Hopkins Place SE., demolish them, and rebuild on the site under the title II housing development program.

In the 1965 budget request presented herewith, no funds are sought for the 23 units at Hopkins Place, either for maintenance and operation or for demolition.

Funds requested in the 1965 budget are for maintenance and operation of the remaining 73 units in title I. The amount requested, $37,000, represents a higher percentage of the present budget of $43,000 than the reduction of 23 units would indicate because of salary and wage increases in 1963 and 1964 and the addition of personnel to aid in tenant rehabilitation and property maintenance.

Utility cost increases are due to the fact that utilities are not furnished the old Hopkins Place tenants; whereas utilities are supplied for most of the remaining 73 units.

Ordinary maintenance and operation cost increases are due to wage increases plus increased cost of materials for tenant painting program.

The reorganization of routine administrative and maintenance operations of the Authority has an effect on title I, for title I is charged with its pro rata share of routine Authority costs.

However, title I does not provide for insurance protection, payments in lieu of taxes, or collection losses as does title II. For this reason, title I has a minimum of general expense.

Title I expenditures, fiscal year 1963–65

	1963 actual, 96 units	1964 estimate, 96 units	1965 estimate, 73 units	
			Amount	PUM
Total operating receipts	$45,674	$47,000	$39,000	$44.52
Administration	13,978	14,330	11,700	13.36
Utilities:				
Water	1,445	1,450	1,150	1.31
Electricity	1,187	1,200	1,150	1.31
Gas	653	650	650	.74
Fuel	2,881	2,880	2,880	3.29
Labor	1,496	1,500	1,500	1.71
Sewer charge	1,000	1,000	800	9.2
Total	8,662	8,680	8,130	9.28
Ordinary maintenance and operation:				
Labor	10,336	10,350	8,200	9.36
Materials	3,920	5,000	4,400	5.02
Contract costs	1,132	1,150	810	.93
Total	15,388	16,500	13,410	15.31
General expense	158	150	130	.15
Total routine expenditures	38,186	39,660	33,370	38.10
Extraordinary maintenance	1,803	1,340	2,630	3.00
Replacement of equipment		2,000	1,000	1.14
Betterments and additions	153			
Total	1,956	3,340	3,630	4.14
Total operating expenditures	40,142	43,000	37,000	42.24
Residual receipts	5,532	4,000	2,000	2.28

Estimated Federal capital invested in title I properties

	Nov. 12, 1934, to June 30, 1963	July 1, 1962, to June 30, 1964	July 1, 1963, to June 30, 1965	Total as of June 30, 1965
Federal project contribution:				
Appropriations expended	$761,213			$761,213
Receipts from sale of real property covered into U.S. Treasury	−158,968			−158,968
Transfer of property to Federal agencies	−607,652			−607,652
Federal project contribution	−5,407			−5,407
Federal operating contributions:				
Appropriations for operating expense, net	673,569	$43,000	$37,000	753,569
Operating receipts covered into U.S. Treasury	−1,056,889	−47,000	−39,000	−1,142,889
Operating contributions, profit	−383,320	−4,000	−2,000	−389,320
Net investment of U.S. Government in title I properties	−388,727	−4,000	−2,000	−394,727

	Dwelling units	Development cost
Title I properties:		
Hopkins Pl. (remodeled)	11	$27,586
Hopkins Pl. (new)	12	46,312
St. Mary's apartments	24	140,000
V St. houses	18	97,573
Williston apartments	31	138,554
Total	96	450,025

TITLE II

General statement

All activities under title II of the Alley Dwelling Act are conducted under supervision of Public Housing Administration.

As of July 1, 1960, all title II dwelling units under management were placed under one annual contribution contract. Operating costs, debt service, and provisions for operating reserves are met from rental income and Federal contributions.

Development activities are initially financed by loan notes which are subsequently retired with proceeds from bonds sold to private investors. At the end of the development period, debt service on bonds and costs of operation are met from rental receipts and Federal contributions. The contributions permit the Authority to reduce rents from low-income families below cost levels.

The maximum permissible Federal contribution by contract approximates debt service on the development cost of properties. The actual contribution received annually is based upon the difference between rental income and (1) operating costs, (2) debt service, and (3) provision for operating reserves.

Income limits for admission and continued occupancy

Since July 1, 1962, the income limits for admission to and continued occupancy of NCHA low-rent housing have been as follows:

Net family income after exemptions

Number of persons	Admission	Continued occupancy
1	$3,200	$4,000
2	3,500	4,400
3	3,700	4,600
4	3,900	4,900
5	4,100	5,100
6	4,300	5,400
7	4,500	5,600
8	4,700	5,900
9	4,900	6,100
10 or more	5,100	6,400

Annual reexamination of tenant incomes

The Authority's rental program is based upon serving a true cross section of the low-income families in the District of Columbia. To insure that we house only low-income families we reexamine the incomes of all tenants (except those who have been tenants for less than a year) on an annual basis. Presented herewith is the income pattern of our present tenant families, taken from our fiscal year 1963 records:

Income and rental information

Net incomes	Number of families in each income step	Percentage in each income step	Bedrooms						
			0	1	2	3	4	5	6
$1,000 or less	545	7.3	27	30	33	36	39	42	45
$1,001 to $2,000	2,094	28.1	27–37	30–37	33–37	36–37	39	42	45
$2,001 to $3,000	2,106	28.3	37–56	37–56	37–56	37–56	39–56	42–56	45–56
$3,001 to $4,000	1,593	21.4	58–76	58–76	58–76	58–76	58–76	58–76	58–76
$4,001 to $5,000	861	11.7	76	78–86	78–96	78–96	78–96	78–96	78–96
$5,001 to $6,000	164	2.2	76	86	96	98–106	98–114	98–114	98–114
$6,000 or more	80	1.0	76	86	96	96–106	114–116	114–126	114–136
Tenants reexamined	7,443	100.0							

NOTE.—Average rental income for fiscal year 1963 was $54.28 per unit.

Characteristics of tenants in occupancy

	Number of families in each income step	Percentage in each income step
Tenants paying minimum rent	1,525	20.5
Tenants paying maximum rent	184	2.5
Tenants receiving assistance from Public Welfare	1,415	18.0
Elderly tenants	772	10.4

The tabulation on the preceding page shows that 35.4 percent of our tenants have annual incomes under $2,000. The 23 percent shown above paying minimum and maximum rents are exclusive of the 18 percent receiving public assistance and who pay a separate welfare rent.

Welfare rents approximate the economic or cost rent for the dwelling leased. This system avoids payment of subsidy for shelter from two sources for the same tenant.

Graded rents are based upon net family income, except at minimum and maximum levels. No profit is realized on these rents.

Elderly tenants are those families in which either the head of the family or his spouse is at least 62 years of age or totally disabled. Ten percent of our tenants are elderly.

Population statistics

Adults	12,879
Minors	25,557
5 and under	9,259
6 through 12	10,496
13 through 17	4,710
18 through 29	1,092
Total	38,436

NCHA welfare rent schedules and median rents paid by bed roomsize (excluding public assistance recipients), June 30, 1963

Unit size	Total families	Welfare recipients	Welfare rent	Nonrecipients	Median rent
1 bedroom	952	264	$47 or $54	688	$35
2 bedrooms	3,860	652	61	3,208	48
3 bedrooms	2,016	381	65	1,635	59
4 bedrooms	704	164	70	540	64
5 bedrooms	257	47	76	210	72
6 bedrooms	70	23	82	47	58

Median gross family incomes reported by bedroom size (public assistance recipients excluded), NCHA tenants, June 30, 1963

Unit size	*Median gross income*	*Unit size*	*Median gross income*
All 1 bedroom	$1,828	3 bedroom	$3,558
Single elderly	1,060	4 bedroom	3,937
Elderly couples	1,540	5 bedroom	4,687
2 bedroom	2,918	6 bedroom	4,120

Consolidated LHA budget—Summary PHA-aided low-rent housing in management' fiscal year ending June 30, 1964

Contract No.	units	Number of Unit months	Annual contract date
1055			Aug. 17.
Others			Oct. 15.
W(ACC)76	7,821	93,852	

National Capital Housing Authority, Washington, D.C.

(1)	Actual, last fiscal year, 1962, PUM (2)	Estimate, current budget, 1963, PUM (3)	Requested budget estimate, 1964	
			PUM (4)	Amount (round to nearest $10) (5)
OPERATING RECEIPTS				
Dwelling rent schedule		$54.48	$55.16	$5,176,740
Less vacancy loss		.27	.27	25,000
Dwelling rental	$52.98	54.21	54.89	5,151,740
Excess utilities	.21	.27	.34	31,630
Nondwelling rental			.01	740
Total rental income	53.19	54.48	55.24	5,184,110
Interest on general fund investments	.43	.36	.51	48,330
Contribution for elderly		.75	.76	70,920
Other income	.56	.56	.45	42,400
Total, operating receipts	54.18	56.15	56.96	5,345,760
OPERATING EXPENDITURES				
Routine:				
Administration:				
Nontechnical salaries	6.53	7.79	8.46	794,530
Technical salaries	1.13	1.53	1.62	152,190
Legal expense	.20	.20	.21	20,030
Employee benefit contributions	1.49	1.64	1.73	162,000
Other administration expense	.76	.81	.85	79,410
Total, administration	10.11	11.97	12.87	1,208,160
Utilities:				
Water	1.75	1.75	1.86	174,520
Electricity	3.56	3.84	3.75	351,680
Gas	5.66	6.35	6.16	578,410
Fuel	2.40	2.70	2.70	253,550
Labor	1.09	1.26	1.12	105,010
Other utilities expense	1.40	1.39	1.39	130,740
Total, utilities	15.86	17.29	16.98	1,593,910
Ordinary maintenance and operation:				
Labor	8.85	10.30	10.59	993,410
Materials	2.49	3.40	3.79	355,600
Contract costs	1.20	1.27	1.23	115,760
Total, ordinary maintenance and operation	12.54	14.97	15.61	1,464,770
General expense:				
Insurance	.52	.53	.55	51,270
Payments in lieu of taxes	3.73	3.82	3.82	359,020
Collection losses	.61	.70	.42	39,200
Terminal leave payments	(.09)			
Rental debt service	.08	.08	.08	7,790
Other general expense: Demolition DC 1-28	.18			
Total, general expense	5.03	5.13	4.87	457,280
Total, routine expenditures	43.54	49.36	50.33	4,724,120
Nonroutine:				
Prior year adjustments	.01			
Extraordinary maintenance	4.75	4.43	3.24	303,560
Replacement of equipment	.78	.76	.95	89,420
Betterments and additions	7.05	3.83	4.27	400,870
Other nonroutine expense: Casualty losses	.02			
Total, nonroutine expenditures	12.61	9.02	8.46	793,850
Total, operating expenditures	56.15	58.38	58.79	5,517,970
Residual receipts before reserves	(1.97)	(2.23)	(1.83)	(172,210)
Less provision for reserves	(1.97)	(2.23)	(1.83)	(172,210)
Residual receipts after reserves	0	0	0	0

National Capital Housing Authority—Applications and occupancy report, year ending June 30, 1963

APPLICATIONS

	Total applications									Race	
	Total	Bedroom size								Non-white	White
		0-1	1-E	1	2	3	4	5	6		
1. Applications on hand beginning of period	6,945	338	152	284	1,721	2,718	1,629	531	72	6,901	44
2. Received during period	3,643	188	68	517	1,474	864	393	111	28	3,566	77
Displaced	169	9	4	9	55	39	24	20	9	160	9
Nondisplaced	3,474	179	64	508	1,419	825	369	91	19	3,406	68
3. Total applications for period (1+2)	10,588	526	220	801	3,195	3,082	20,022	642	100	10,467	121
4. Changes during period—Out (5+6+7)	7,182	151	68	788	2,905	1,779	1,051	359	81	7,052	130
5. Referred to management areas	1,355	40	26	179	679	299	74	36	22	1,323	32
Displaced	372	7	11	12	76	134	74	36	22	369	3
Nondisplaced	983	33	15	167	603	165	----	----	----	954	29
6. Removed from active status	4,896	102	32	538	1,934	1,210	782	246	52	4,805	91
Displaced	439	14	2	14	56	115	141	86	11	428	11
Nondisplaced	4,457	88	30	524	1,878	1,095	641	160	41	4,377	80
7. Other—Preference, unit size, etc. (contra 11)	931	9	10	71	292	270	195	77	7	924	7
Displaced	94	1	----	1	6	9	48	29	----	92	2
Nondisplaced	837	8	10	70	286	261	147	48	7	832	5
8. Changes during period—In (9+10+11)	2,961	70	43	245	1,000	910	420	206	67	2,889	72
9. Returned from management areas	521	21	7	120	228	134	8	2	1	505	16
Displaced	101	5	1	11	19	54	8	2	2	99	2
Nondisplaced	420	16	6	109	209	80	----	----	----	406	14
10. Restored to active status	1,509	37	19	97	593	439	206	86	30	1,460	49
Displaced	239	7	1	3	38	73	65	36	16	232	7
Nondisplaced	1,270	30	18	94	555	366	143	50	14	1,228	42
11. Other — Preference, unit size, etc. (contra 7)	931	12	17	28	179	337	204	118	36	924	7
Displaced	275	2	3	3	25	66	70	84	22	272	3
Nondisplaced	656	10	14	25	154	271	134	34	14	652	4
12. On hand end of period—Central office (3−4+8)	6,367	445	195	258	1,290	2,213	1,391	489	86	6,304	63
Displaced	444	5	1	5	22	25	198	164	24	441	3
SO	----	----	----	----	----	----	----	----	----	----	----
RLA	12	3	----	1	----	----	5	3	----	12	----
DCA	15	1	----	----	----	3	5	5	1	15	----
DCC	46	----	1	----	----	2	16	24	3	46	----
DCH	352	1	----	1	6	20	172	132	20	349	3
RTP	19	----	----	3	16	----	----	----	----	19	----
Other	----	----	----	----	----	----	----	----	----	----	----
Nondisplaced	5,923	440	194	253	1,268	2,188	1,193	325	62	5,863	60
Veteran/serviceman	1,039	17	8	21	112	222	494	148	17	1,014	25
Other	4,884	423	186	232	1,156	1,966	699	177	45	4,849	35
13. On hand end of period—Management areas	120	----	----	28	59	32	1	----	----	117	3
Displaced	20	----	----	----	10	9	1	----	----	19	1
SO	----	----	----	----	----	----	----	----	----	----	----
RLA	3	----	----	----	2	1	----	----	----	3	----
DCA	----	----	----	----	----	----	----	----	----	----	----
DCC	2	----	----	----	1	1	----	----	----	2	----
DCH	11	----	----	----	3	7	1	----	----	11	----
RTP	4	----	----	----	4	----	----	----	----	3	1
Other	----	----	----	----	----	----	----	----	----	----	----
Nondisplaced	100	----	----	28	49	23	----	----	----	98	2
Veteran/serviceman	51	----	----	8	20	23	----	----	----	49	2
Other	49	----	----	20	29	----	----	----	----	49	----
14. Total applications on hand end of period (12+13)	6,487	445	195	286	1,349	2,245	1,392	489	86	6,421	66

National Capital Housing Authority—Applications and occupancy report, year ending June 30, 1963—Continued

OCCUPANCY

	Total applications									Race	
	Total	Bedroom size								Non-white	White
		0–1	1–E	1	2	3	4	5	6		
1. Vacant units beginning of period	45			8	10	9	16	1	1		
2. New construction—disposition	−19			−7	−24		−7		19		
3. Moveouts—Nontransfer	796			104	431	196	44	17	4		
4. Transfers—Out	344			51	189	78	19	5	2		
5. Total units available for period (1+2+3+4)	1,166			156	606	283	72	23	26		
6. Occupied during period (7+8+9)	1,127			152	587	272	70	23	23		
7. By displaced families	225			18	60	83	35	13	16		
8. By nondisplaced families	558			84	394	80					
9. By transfers—In	344			50	133	109	35	10	7		
10. Vacant or out of use end of period (5—6)	39			4	19	11	2		3		
11. Occupied units—Dwelling or nondwelling	7,859			952	3,860	2,016	704	257	70		
12. Total number of units end of period (10+11)	7,898			956	3,879	2,027	706	257	73		

NOTE.—Adjusted to reflect (1) referrals to demonstration project No. 1; (2) inventory count as of June 30 1963.

DEMONSTRATION PROJECT

(Section 207 of the Housing Act)

One of the most serious of NCHA's concerns in recent years has been the problem of providing housing for large low-income families. Many of these families have been displaced more than once by code enforcement, highway construction or other governmental action, and the supply of large public housing units has always been limited. The director of the city's landlord and tenant consultant service recently described a composite of the family affected as follows:

"It consists of a father and mother and four to five children living on an income of $67.91 a week. The husband is 31 and has an eighth grade education. He is an unskilled laborer or works in a service industry. His choice of jobs is limited and chance for advancement negligible. His wife is 28 and has finished ninth grade. The family income is so low that the slightest change in living conditions results in a major catastrophe."

In the face of the urgent need of hundreds of similar District families, NCHA has made special efforts to accommodate large displaced families.

On December 20, 1962, NCHA received the first money and authorization to proceed with a demonstration project under section 207 of the housing act. This is a plan for a pilot project to provide an immediate supply of housing for large displaced low-income families by direct rent subsidy payments to private landlords. The project was the result of careful planning by NCHA with the Junior League of Washington, the Washington Board of Realtors, the Washington Real Estate Brokers, the Inter-Church Committee on Urban Renewal and the District Department of Licenses and Inspections.

All of the cooperating groups have made contributions in cash or in service to support the project. The private groups contributed money to employ a social worker and provide social and educational services for the tenants. The Washington Center for Metropolitan Studies has been engaged to develop the research design and assist in preparing a final evaluation of the project.

As of June 30, 1963, the first 7 of an anticipated total of 50 families had moved in. These families contain an average of eight persons. They pay rents depending on their incomes of from $49 to $84 for large private houses with four to six bedrooms. The Authority leases these houses from private landlords at rents ranging from $115 to $155 monthly. It subleases the houses to low-income families using the subsidy from the HHFA demonstration grant to bridge the difference.

DISPLACEMENT AND RELOCATION

The Authority's demonstration program is a pilot effort to provide a supply of emergency housing for large low-income families displaced by public action. The subsidy from an HHFA demonstration grant is used to help low-income families pay the rents charged by private landlords. Using this technique, a supply of large houses which measure up to the standards set by local codes and ordinances can be made immediately available to families with no place to go. Although physical improvements are necessary, we must assure that their price is not too great a burden to the people in their path.

Mr. WASHINGTON. I didn't quite follow the point you made, Mr. Shipley.

Mr. SHIPLEY. I was giving an example of operating 96 units. If you care to discuss it, go ahead.

Mr. EDWARDS. Most of the utilities are furnished in that 73 units.

If you refer to the fact that on a unit basis it is higher, it is. It is higher than the present budget of 96 units for $43,000.

One of the reasons is that the utilities are included in the 73 units.

Mr. SHIPLEY. They are not included——

Mr. EDWARDS. Twenty-three units did not include utilities, only water.

Mr. WASHINGTON. In connection with utilities, out of the nearly 8,000 units, where we provide all the utilities, our figure actually for 1962 is $15.86, which is very close to the figure that is in the demonstration. This is an 8,000-unit experience.

Mr. SHIPLEY. What is the total anticipated program, 10,300 units?

Mr. WASHINGTON. Yes, sir.

Mr. SHIPLEY. I have no further questions.

Mr. Boland?

Mr. BOLAND. I have no questions.

Mr. OSTERTAG. I have no questions.

ADMINISTRATIVE COSTS AND PERSONNEL

Mr. JONAS. I would like to have you comment on this $1,208,000 for administration. Is that not pretty high out of total operating receipts of $5,345,000?

For nontechnical salaries, $794,530; how many people are covered?

Mr. EDWARDS. About 20 people; that is chiefly the development section, most of the technical salaries being in the development section.

Mr. JONAS. This is nontechnical, $794,500. Are those the clerks, stenographers?

Mr. EDWARDS. That is right.

Mr. JONAS. Overhead people, all of the nontechnical people? How many are there?

Mr. EDWARDS. 152 employees in the Authority who are administrative, either technical or nontechnical.

Mr. JONAS. How do you keep them all busy handling the relatively small number of units that you have?

Mr. EDWARDS. There are 238 employees on maintenance.

Mr. JONAS. 152 administrative and overhead?

Mr. EDWARDS. That is right.

Mr. JONAS. What do all those people do? How do you keep them occupied?

Mr. EDWARDS. It contains all the positions down to GS–2.

Mr. JONAS. How many units are you managing in both programs?

Mr. EDWARDS. About 8,000.

Mr. JONAS. That is 8,000 individual units. What is the total number of structures?

Mr. WASHINGTON. Approximately 32 different projects throughout the city with 8,000 dwellings and about 3,000 under construction and in planning. That takes a whole batch of employees in that area alone, that is doing the architectural and development work in the new projects.

A good bit of the overhead, for instance, the site acquisition man, the legal office, and so on——

Mr. JONAS. How many do you have in the legal office?

Mr. WASHINGTON. Just two.

Mr. JONAS. Two lawyers?

Mr. WASHINGTON. Yes.

Mr. JONAS. Stenographers?

Mr. WASHINGTON. Two serving that office. They handle rent collection, acquisition problems, claims, and so on.

Mr. JONAS. Is this statement correct—total operating receipts are $5,345,760?

Mr. WASHINGTON. Yes, sir.

Mr. JONAS. Out of that your administrative expense amounts to $1,208,160?

Mr. WASHINGTON. Yes, sir.

Mr. JONAS. In other words, it is taking more than 20 percent of your total receipts to pay your overhead.

POSITION AS A FEDERAL AGENCY

Mr. WASHINGTON. One of the problems we face here, Mr. Chairman, that no other housing authority faces, is the fact we are also a Federal agency. Every time Congress appropriates for employees, as pay raises come on, we have to absorb this with no other ability to do it than to put it into our overhead.

We maintain extensive employee benefit programs, and some of these factors would not normally be in a city housing authority.

For instance, we maintain the fiscal office which has to follow everything that the Defense Department follows with respect to Federal regulations.

Mr. OSTERTAG. That is costly.

Mr. WASHINGTON. It is costly.

Mr. OSTERTAG. If you were not under the Federal Government would it be cheaper?

Mr. WASHINGTON. We could assume that it might be, but we do get some other things that are not shown in our budget, for instance, the ability to use the Justice Department in our acquisitions. It is sort of offsetting and they do not reflect themselves in the budget. For instance, this is why we can maintain 3,000 units under development and acquire those units without adding to our legal staff because we get the service of Justice in the condemnation actions.

Mr. JONAS. It costs almost as much to run the office as it does to pay the entire utility bill for 8,000 units.

Mr. SHIPLEY. If I may interrupt, I asked them to furnish us a percentage cost on the administrative part per unit. I thought I would like to see that myself.

Mr. WASHINGTON. We would be glad to.

Mr. JONAS. There is one item here I noticed; is this $20,000 for legal expense? Does that include salaries to lawyers or is that outside cost?

Mr. EDWARDS. That is to our present staff.

Mr. JONAS. Why would you separate it if that is salaries for the staff? Why wouldn't that go in——

Mr. EDWARDS. This is a PHA form and the form in which they prescribe salaries.

Mr. JONAS. You do not pay $20,000 to outside lawyers?

Mr. WASHINGTON. We cannot use outside lawyers; again, as a Federal agency this is one of the requirements.

APPLICATIONS AND NEED FOR LOW RENT UNITS

Mr. JONAS. Your table on page 11 shows total applications received during the 12-month period ending June 30, 1963, 10,588, of which 6,945 were on hand at the beginning of the period; 3,643 were added during the period. That is only for one period. Is that about the average rate of new applications?

Mr. WASHINGTON. Yes, sir. I would think this is the approximate number.

Mr. JONAS. You receive about that number every year?

Mr. WASHINGTON. Yes, sir; just about that many.

Mr. JONAS. Do you think that figure represents the total need for low cost housing in the District?

Mr. WASHINGTON. No, sir. I do not. I do not think it represents the need at all. One of the reasons is, as we have indicated here, we have not been able to build, actually put into occupancy, any new housing since the 174 units in 1961 and all that we have for families on the waiting list is the turnover vacancy. This means that families frequently simply withdraw or some do not apply, knowing the situation is so critical. We have tried our best to make some determinations as to how or what percentage this would represent of the total need. It is a very difficult thing. You cannot go to the Census and get anything other than the number of substandard families living in such housing by income category which is not definitive.

Mr. JONAS. You do not have any studies from which you could conclude the number of eligible people in the District for housing under this program, in addition to those who have applied?

Mr. WASHINGTON. Not that I would call definitive, sir.

Mr. JONAS. What would be your horseback opinion?

Mr. WASHINGTON. My horseback opinion would be about 20,000 families.

Mr. JONAS. Would you say it is increasing as the years go by?

Mr. WASHINGTON. Yes, sir, there seems to be no question in our minds about it because in our own housing, as we analyze our families in occupancy, as I pointed out earlier, we now have 63.7 percent of our families making $3,000 or less. This figure is staggering to us.

Mr. JONAS. It is increasing.

Mr. WASHINGTON. It is increasing.

Mr. JONAS. That makes it all the more of a serious problem.

RESIDENCY REQUIREMENTS

How many would you say of that number have resided in the District 5 years or longer?

Mr. WASHINGTON. On our waiting list?

Mr. JONAS. Yes.

Mr. WASHINGTON. I would say we have a resident's requirement and in making a sampling of our waiting list we found that out of the several hundred that we analyzed, the average length of occupancy in the District was about 5 years.

Mr. OSTERTAG. Will the gentleman yield?

Mr. JONAS. Yes.

Mr. OSTERTAG. Does the District of Columbia have a residency law?

Mr. WASHINGTON. Yes; it does. However, it relates to the operation of each department.

Mr. OSTERTAG. A large percentage of the occupants of these homes or apartments have their incomes supplemented by welfare; isn't that true?

Mr. WASHINGTON. We have 18 percent of our families living in our housing who are on welfare, 18 percent.

Mr. OSTERTAG. Entirely on welfare?

Mr. WASHINGTON. Yes, sir.

Mr. OSTERTAG. Suppose they have an income of $1,500 or $2,000 a year, which isn't sufficient to maintain their family, and that is supplemented by welfare income. Are they eligible for that public assistance without establishing legal settlement?

Mr. WASHINGTON. No, sir; not without establishing legal residence under the Welfare Department regulations for at least a year.

Mr. OSTERTAG. What do you do in cases like that? People are here and require housing. What do you do?

Mr. WASHINGTON. We simply do not take the application. This has been, I would say, questioned pro and con. The position of our Board was that, with the number of people that we have on our waiting list, some of them going back as far as 15 years, with families having grown up while they have been waiting, and this relates to the fact that during the war years our preference was given to warworkers; the postwar period it was given to the families displaced by Government action or veterans and we have families that fall in neither of these categories of preference or priority and they just wait. A very distressing bit of publicity came out on a couple of families. They had been on a waiting list for 18 years. They fell in this nonpriority, nonpreference category. The feeling of our Board was that we should favor the people who have been here and not give the same consideration to people who are just coming in. Whether this is appropriate in terms of an overall responsibility of the housing authority in a city today, I am not just sure as I reflect on the possible consequences.

Mr. JONAS. I am inclined to believe it is.

FAMILIES MOVING TO WASHINGTON

I am also interested—and this may not be within the scope of your authority—but if the situation is as critical as you represented it and these statistics would certainly support that view, is any effort being

made or does anyone in the District consider that it would be within the province of the District government or the Housing Authority or anybody else to acquaint people seeking information about moving to the District with the fact that housing is in very critical shortage, and stop so many people coming to Washington. They ought to stay at home if they have a decent place to live.

Mr. WASHINGTON. We believe so, too, if they have a decent place.

Mr. JONAS. I mean is any effort being made anywhere along the line to point out that to newcomers?

Mr. WASHINGTON. Not that I know of.

Mr. JONAS. I guess most of them just move in without asking information in advance.

Mr. WASHINGTON. Well, this is kind of a peculiar thing. Word seems to get out on general conditions.

Mr. JONAS. That everything is lovely here?

Mr. WASHINGTON. No; people are somehow aware of the critical housing situation here and I understand informally that you get far more people bypassing Washington coming from the South than you do stopping off.

Mr. JONAS. Last year how many new families moved into Washington?

Mr. WASHINGTON. I couldn't give you that figure. We do not keep that. The best record of that comes out of the schools. Of course, our census show that the inmigration in Washington, per se, was not too great during the last 3 or 4 years, but this is an illusory picture.

Mr. JONAS. You had an outchange during the year of 7,182 applications. That means they were withdrawn or placed somewhere; is that correct?

Mr. WASHINGTON. Either placed or withdrawn because they didn't keep the applications current.

Mr. JONAS. What do you mean by "referred to management"?

Mr. WASHINGTON. That is what we do in order to avoid vacancy loss. We look at each project and see what its vacancy experience is. Over the years they may have 10 vacancies of certain sizes. What we do is then preassign families on the basis of this experience so they will be right on the spot when the vacancy occurs in contact with the management and readily coordinate their moving plans with the availability of the unit.

Mr. JONAS. I notice, of the total applications that you had on hand at the end of the period mentioned, June 30, 1963, were 10,588 total, 10,467 were nonwhite and 121 white. Would that same percentage hold true with respect to your occupancy?

Mr. WASHINGTON. Just about at this point, about 95 to 96 percent, sir.

Mr. JONAS. I do not have any other questions.

Mr. THOMAS. Thank you, gentlemen.

TUESDAY, FEBRUARY 4, 1964.

RENEGOTIATION BOARD

WITNESSES

LAWRENCE E. HARTWIG, CHAIRMAN
HERSCHEL C. LOVELESS, BOARD MEMBER
THOMAS D'ALESANDRO, JR., BOARD MEMBER
WILLIAM M. BURKHALTER, BOARD MEMBER
JACK BEATY, BOARD MEMBER
HOWARD W. FENSTERSTOCK, GENERAL COUNSEL
PAUL T. SEMPLE, DIRECTOR OF ASSIGNMENTS
R. F. HAGGERTY, DIRECTOR OF ADMINISTRATION
MISS ELFRIEDA EGBERT, BUDGET ANALYST

SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	2,003	2,162	2,218
	Positions other than permanent	6	15	15
	Other personnel compensation	14	45	36
	Total personnel compensation	2,023	2,222	2,269
12	Personnel benefits	143	156	159
21	Travel and transportation of persons	42	50	50
22	Transportation of things	2	5	5
23	Rent, communications, and utilities	43	45	45
24	Printing and reproduction	11	11	11
25	Other services	27	35	35
26	Supplies and materials	21	16	16
31	Equipment	29	10	10
	Total obligations	2,342	2,550	2,600

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	225	225	225
Full-time equivalent of other positions	1	2	1
Average number of all employees	204	214	213
Employees in permanent positions, end of year	216	222	220
Employees in other positions, end of year	7	8	5
Average GS grade	9.4	9.4	9.4
Average GS salary	$9,785	$10,245	$10,262

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 [1] estimate
Program by activities:			
1. Executive direction	538	565	575
2. Staff operations	810	845	860
3. Renegotiation operations (field)	1,011	1,140	1,165
Total program costs, funded	2,359	2,550	2,600
Change in selected resources [1]	−17		
Total obligations	2,342	2,550	2,600
Financing: Unobligated balance lapsing	104		
New obligational authority	2,446	2,550	2,600
New obligational authority:			
Appropriation	2,450	2,550	2,600
Transferred to "Operating Expenses, Public Buildings Service," General Services Administration (76 Stat. 728)	−4		
Appropriation (adjusted)	2,446	2,550	2,600

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1962, $24,000; 1963, $7,000; 1964, $7,000; 1965, $7,000.

Mr. THOMAS. We have with us this morning our distinguished friends from the Renegotiation Board. It is nice to have with us Mr. Hartwig, the Chairman; Mr. Loveless, a member; our very distinguished and loved former colleague, Mr. D'Alesandro, Mr. Burkhalter, Mr. Beaty; and we have the General Counsel, Mr. Fensterstock; Director of Assignments, Mr. Semple; Mr. Haggerty; and of course we are always delighted and honored to have Miss Egbert, the budget analyst.

Mr. Ostertag, will you be good enough to conduct this examination for us?

Mr. OSTERTAG (presiding). Thank you, Mr. Chairman.

Mr. Chairman, I believe you have a statement to present to the committee?

Mr. HARTWIG. Yes, sir.

May I read it?

Mr. OSTERTAG. Yes.

GENERAL STATEMENT

Mr. HARTWIG. I have the honor, once again, to present the budget estimate of the Renegotiation Board. I appear today in support of our appropriation request for the fiscal year ending June 30, 1965.

The Board's appropriation for fiscal 1964 was $2,550,000. For fiscal 1965, the Board requests an appropriation of $2,600,000. The additional $50,000 is due solely to the general pay increases that became effective last month.

This request is in direct keeping with the President's demand for Government-wide economy. Although an increase in workload is indicated for fiscal 1965, the Board intends to do the job without adding to its present staff.

There is ample basis for our anticipated increase in workload. In fiscal 1963 the Board reviewed renegotiable sales, under both prime contracts and subcontracts, in the total amount of $31.2 billion. This is the largest amount reviewed by the Board since it began in 1956 to

submit annual reports to the Congress. In fiscal 1965, the sales to be reviewed will result mainly from increased defense and space expenditures in fiscal years 1963 and 1964. Combined expenditures of the Department of Defense and the National Aeronautics and Space Administration for major procurement, research, development, and testing have maintained a steady upward trend in recent years, as follows:

	Amount (in billions)
1961	$19.7
1962	21.8
1963	24.6
1964 (estimated)	26.7

This trend has had a marked impact upon the Board's constant effort to keep current in its work. To achieve this objective, the Board has consolidated field offices and introduced operating efficiencies.

From its organization under the 1951 act through the end of fiscal 1963, the Board made agreements or orders determining excessive profits in the total amount of $871,635,030 before Federal tax credits. In addition, renegotiation proceedings with assigned contractors during that 12-year period disclosed voluntary refunds and price reductions to the Government amounting to $1,189,054,130. Thus, the purpose of the Renegotiation Act as defined by Congress—the elimination of excessive profits—is accomplished both by Board proceedings and by voluntary actions of contractors. The total amount of such refunds and savings, from the inception of the Board through June 30, 1963, aggregated $2,060,689,160.

During fiscal 1963, the Board made 48 determinations of excessive profits totaling $10,069,536; and as of June 30, 1963, had also made, but had not yet incorporated in agreements or orders, additional refund determinations in the amount of $14,536,129. Also, in fiscal 1963, contractors reported to the Board voluntary refunds and price reductions in the amount of $28,047,146.

Of the 48 determinations of excessive profits made in fiscal 1963, 38 resulted in refund agreements and 10 resulted in the issuance of unilateral orders. Three of these orders were appealed to the Tax Court before June 30, 1963, and five more after that date.

From its inception through June 30, 1963, the Board made 3,608 determinations of excessive profits, and 3,262, or 90.4 percent of such determinations were agreed to by contractors. During the same period, 123 of 346 unilateral orders issued by the Board were appealed to the Tax Court. As of June 30, 1963, the court had disposed of 63 cases, leaving 60 pending on that date. The Board's determinations were upheld in 38 of the 63 cases disposed of by the Tax Court; in 4 cases they were increased, and in 21 they were decreased.

My colleagues and I will be pleased to answer any questions or supply any other information, as the subcommittee may desire.

Mr. OSTERTAG. Thank you very much, Mr. Hartwig. That is a very fine statement.

We understand that your budget estimate for fiscal year 1965 amounts to $2,600,000, which is an increase of $50,000 over fiscal year 1964. That increase is entirely brought about by virtue of the second increment of the Pay Act of 1962; is that correct?

Mr. HARTWIG. Yes, sir.

EXTENSION OF RENEGOTIATION ACT

Mr. OSTERTAG. The Renegotiation Act as presently extended expires on June 30 of this year.

Mr. HARTWIG. The coverage of the act expires on June 30 of this year. The administration has requested a 4-year extension.

Mr. OSTERTAG. A 4-year extension?

Mr. HARTWIG. Yes, sir.

Mr. OSTERTAG. Is that pending at the present time?

Mr. HARTWIG. It is pending at the present time.

Mr. OSTERTAG. And you have no doubt that this legislation will be enacted in time to meet your deadline?

Mr. HARTWIG. I sincerely hope so.

Mr. OSTERTAG. You hope so but have you any reason to believe or feel that there will be any question about it?

Mr. HARTWIG. I have no reason to believe that there will be any question about it. This is the seventh extension of the act that has been requested. Congress has always granted the request.

Mr. JONAS. Mr. Ostertag, before you leave that subject, may I interrupt to ask a question?

Mr. OSTERTAG. Certainly.

RECENT INCREASES DUE TO PAY ACT

Mr. JONAS. I notice in the table, however, that while you have only a slight increase in funds requested over last year, which I applaud, nevertheless you are substantially above 1963. What accounted for the very substantial increase in 1964 over 1963?

Mr. HARTWIG. The increase, 1964 over 1963, was due to the pay raise.

Mr. JONAS. Exclusively?

Mr. HARTWIG. Yes, sir, as a result of the action of Congress. The $2,550,000 which we received for this year was $100,000 more than the preceding budget. That $100,000——

Mr. JONAS. It is a little more than that. It was $2,342,470 in 1963 and jumped up to $2,550,000 in 1964.

Mr. HARTWIG. This is attributable to the pay raise. There were two rounds of pay raises, as you know, sir, and the difference between the 1964 and 1963 budgets was due entirely to these raises. A second increase took effect in January of this year, which will be effective for only half of this fiscal year. The additional $50,000 for 1965 will defray the cost of that second increase for an entire year.

Mr. JONAS. At least it can be said accurately that the downward trend which was manifest in the years 1961–63 has now reversed itself and is going back up. Is that not correct?

Mr. HARTWIG. To the extent that there have been pay increases, there is an upward trend; yes, sir.

Mr. JONAS. You were up to nearly $3 million in 1961 and came down to $2.6 million in 1962 and $2.3 million in 1963.

Mr. HARTWIG. We are still below the 1961 budget. I may point out to you that, although the Board had 271 employees at the end of 1961 we are budgeting now for only 225 positions, despite the fact that the dollars of renegotiable sales have increased and despite the fact that there has been an increase in filings.

Mr. JONAS. I didn't want to pursue it.

Mr. HARTWIG. I am quite proud of the fact that this Board through its reduction in force and consolidation has reduced the organization from 271 to 225. Percentagewise that is quite a reduction.

Mr. EVINS. Will the Chairman yield?

Mr. OSTERTAG. I yield.

Mr. EVINS. This is the one point I noticed about your budget when I examined it earlier. The defense contracts are going up, space contracts are going up, there are more filings and the staff is going down. Does it mean you are giving much less attention to the monumental assignment which the Congress has given you?

Mr. HARTWIG. No, sir; we hope to cooperate with the President's economy and efficiency program.

Mr. EVINS. You are to be commended.

JUSTIFICATION OF THE ESTIMATE

Mr. OSTERTAG. Mr. Reporter, it might be well if we insert in the record at this point pages No. 4 through 12 of the justification.

(The justification pages follow:)

PURPOSE OF APPROPRIATION

The general purpose of the appropriation "Salaries and expenses, Renegotiation Board" is to provide funds for salaries and all other expenses of the Renegotiation Board, created by the Renegotiation Act of 1951 (Public Law 9, 82d Cong., approved Mar. 23, 1951, and as amended Sept. 1, 1954, Aug. 3, 1955, Aug. 1, 1956, Sept. 6, 1958, July 13, 1959, and July 3, 1962), with authority for the determination and elimination of excessive profits realized by contractors and subcontractors in connection with procurement under the national defense and space programs.

OPERATION UNDER THE ACT

The Renegotiation Board reviews the overall profits of a contractor on renegotiable business during his fiscal year. Renegotiation is conducted on the basis of total receipts or accruals from all renegotiable contracts and subcontracts and not on a contract-by-contract basis. By statute a contractor or subcontractor having a total of $1 million or less of receipts or accruals on defense contracts and subcontracts during any fiscal year ending after June 30, 1956, is not subject to renegotiation. A contractor having more than such amount of renegotiable business is subject to renegotiation. In those cases requiring renegotiation proceedings, the Board secures as much information as it deems necessary to determine whether the contractor has made excessive profits. In each case the Board's determination is based on the contractor's efficiency and the application of the other factors set forth in the act, which are: (1) reasonableness of costs and profits; (2) net worth and capital employed; (3) extent of risk assumed; (4) nature and extent of contribution to the defense effort; and (5) character of business.

Estimate of obligations by activity

	1961 actual	1962 actual	1963 actual	1964 estimate	1965 estimate
1. Executive direction	$529,580	$534,814	$536,988	$565,000	$575,000
2. Staff operations	766,112	748,801	808,014	845,000	860,000
3. Renegotiation operations (field)	1,629,515	1,327,583	997,468	1,140,000	1,165,000
Total obligations	[1] 2,925,207	[1] 2,611,198	2,342,470	2,550,000	2,600,000

[1] Salaries were at July 10, 1960, pay rates.

Estimate of average employment by activity

	1961 actual	1962 actual	1963 actual	1964 estimate	1965 estimate
1. Executive direction	51.9	48.1	47.5	46.9	46.6
2. Staff operations	75.6	68.0	72.2	73.9	73 7
3. Renegotiation operations (field)	150.3	118.0	84.2	93.3	93.0
Total average employment	277.8	234.1	203.9	214.1	213.3

ORGANIZATION

The Renegotiation Board is comprised of the headquarters office and two regional boards, with five members on each regional board and a staff of professional accountants, lawyers, and renegotiators.

The headquarters office is responsible for executive direction and administrative supervision of the Board's activities. It receives all financial statements filed by contractors or subcontractors subject to the act, screens such reports to separate those involving obviously nonexcessive profits, and assigns the others to the regional boards for processing.

The statutory board at the headquarters office has delegated authority to its regional boards to complete those assignments in which renegotiable profits before taxes are $800,000 or less (class B). In any such case, if a clearance is issued or a refund agreement is made with the contractor, the action of the regional board is final; if agreement is not reached with the contractor, the regional board issues an order, which is subject to review and final determination by the statutory board. The regional boards also process assignments of greater magnitude (class A), but in such cases their authority is limited to recommending determinations to be made by the statutory board; and if a regional board's recommendation is not acceptable to either the statutory board or the contractor, the case is reassigned from the regional board to the statutory board for further proceedings and completion.

PROGRAM REVIEW

Workload

The Renegotiation Board administers the Renegotiation Act of 1951, as amended and extended through June 30, 1964, and, in addition, has responsibilities in connection with the Renegotiation Acts of 1943 and 1948. The volume of renegotiable sales reviewed by the Board increased from $28.8 billion in fiscal 1960 to $31.2 billion in fiscal 1963.

A contractor having renegotiable business in excess of the statutory minimum during his fiscal year must file a report with the Washington headquarters of the Board. Such reports are required to be filed no later than the first day of the fifth month after the close of each contractor's fiscal year and must include financial statements and such other information as the Board requires. Since there is no penalty for delinquent filings, except in cases of willful failure or refusal, the Board must maintain a constant followup program.

The Board maintains an index of Government prime contractors and their subcontractors. At appropriate periods, principally at the end of the calendar year (70 percent of contractors' fiscal years end with the calendar year), it sends letters of preliminary inquiry apprising contractors of their responsibilities under the statute. For fiscal years ending after June 30, 1956, a contractor may make a filing if his renegotiable receipts or accruals are below the respective statutory minimums but such filing is not required. A considerable number of such contractors elect to file in order to obtain the advantage of a final settlement of their renegotiation status.

A contractor is required by the act to file a report with the Board on or before the first day of the fifth month after the close of his fiscal year, causing a timelag of 4 months. For example, a contractor whose fiscal year ends December 31, 1963, will have until May 1, 1964, to file his report with the Board. The number of filings received and processed in the various Government fiscal years is shown in the following table:

Filings and disposition by Government fiscal years

	Actual				Estimate				
	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968
Floor	13,445	9,344	8,106	6,462	8,000	8,000	8,000	8,000	8,000
Above floor	3,974	3,717	3,862	3,913	4,000	4,000	4,000	4,000	4,000
Total	17,419	13,061	11,968	10,375	12,000	12,000	12,000	12,000	12,000
Screened out	2,977	2,786	3,228	3,517	3,400	3,350	3,350	3,350	3,350
Assigned	1,103	926	386	551	600	650	650	650	650
Backlog	1,359	1,112	739	456	543	543	543	543	543
Total	2,462	2,038	1,125	1,007	1,143	1,193	1,193	1,193	1,193
Completed	1,350	1,299	669	464	600	650	650	650	650
Forwarded to next year	1,112	739	456	543	543	543	543	543	543

Analysis at headquarters.—Contractors having $1 million or less of receipts or accruals from renegotiable business in fiscal years ending after June 30, 1956, are not required to file but may elect to do so. Those contractors having receipts or accruals from renegotiable business in excess of $1 million in any such fiscal year are required to file a financial report. An analysis of all filings is made at headquarters. Filings which indicate renegotiable business above the applicable statutory minimum are examined to determine the acceptability of the contractor's methods of segregation of sales and allocation of costs, and other available information is evaluated to determine whether or not to assign the filing to the field.

In those cases where contractors' reports show losses or clearly indicate non-excessive profits in connection with renegotiable business, action on the case is completed at headquarters. Other cases are assigned to the regional boards for determination. This examination procedure at headquarters lessens the amount of work that would otherwise be assigned to the regional offices, and effects substantial savings in time and expense for both the contractor and the Government. As a result of examining above-the-floor filings during fiscal year 1963, 3,517 cases were completed at the headquarters level by clearance without assignment, and 551 were assigned to the regional boards.

Refund determinations.—In fiscal year 1963, the Board made 48 determinations of excessive profits totaling $10,069,536; and, as of June 30, 1963, the Board had made, but had not yet made final, additional refund determinations in the amount of $14,536,129. From the Board's inception and through June 30, 1963, it made 3,608 determinations of excessive profits totaling $871,635,030. Also, in fiscal year 1963, contractors reported to the Board voluntary refunds and price reductions in the amount of $28,047,146. This brought the total of such refunds and price reductions reported since the inception of the Board to $1,189,054,130. (These voluntary refunds and price reductions are to be distinguished from price reductions made under the terms of price-redeterminable contracts.) The above figures reflect an increase in the aggregate of approximately $23.1 million over the corresponding figures for fiscal year 1962. In tabular form, the monetary results of renegotiation as of June 30, 1963, are presented below:

Monetary results of renegotiation activity

Agreements and orders completed	$871,635,030
Agreements and orders in process	14,536,129
Total agreements and orders	886,171,159
Add: Voluntary refunds and price reductions disclosed in renegotiation proceedings	1,189,054,130
Total	2,075,225,289

It may be observed that the total of refund determinations completed through June 30, 1963, amounted to $871,635,030, while through the same date the Board obligated $40,268,046 for administrative expenses.

APPEALS TO THE TAX COURT OF THE UNITED STATES

In fiscal year 1963, five unilateral orders issued by the Board aggregating $730,000, before State income taxes, were appealed to the Tax Court. Of this number, two were orders issued in fiscal year 1962, and three were orders issued in fiscal year 1963.

Since the inception of the act and through June 30, 1963, 123 of a total of 3,608 determinations of excessive profits have been appealed to the Tax Court.

Mr. OSTERTAG. These cover first of all the purposes of the appropriation, the estimate of obligations by activities and estimate of average employment by activities, program review and filings and disposition by fiscal year.

RELATION OF WORKLOAD TO PERSONNEL AND COSTS

Mr. JONAS. May I point out right there that the table on page 9, Mr. Chairman, shows that your filings and dispositions have been going down since 1960 instead of increasing? They have gone down from 17,419 in 1960 to 10,375 in 1963. So your workload has been going in one direction while your costs have been going in another according to that.

Mr. HARTWIG. May I point out that the figure 17,419 is not significant for present purposes. It includes 13,445 filings below the statutory floor. Those are cases which the Board cannot renegotiate under the statute. They simply involve examination on our part to see whether they actually are under the floor. They do not involve much work. That statistic is not a meaningful one. If you are really looking at the Board's workload you should look at the figures above the floor.

Mr. JONAS. They have gone down, too.

Mr. HARTWIG. 1960, 3,974 filings above the floor and in 1963 the filings were 3,913. My estimate for the current year is that the filings will exceed 4,000 on the basis of our experience during the first 6 months. So they haven't declined. On the contrary, if you use 1961 as a base, they have increased. There has been a steady increase since 1961.

When you look to the other figures below, the "assigned" figures, these relate to the assignments which are sent out to the field for processing by the regional boards. These have declined since 1960 because the Board in 1961 instituted a more effective screening process at headquarters. As a result, only those cases which require thoroughgoing examination have been assigned to the field since that time.

In fact, this is why the Board has been able to do the job despite an increasing volume of work.

Mr. JONAS. Would you comment on that line where it says, "completed"? Does that mean you are completing less work in 1963 than you did in 1960?

Mr. HARTWIG. In 1960 there were cases in the regional boards—loss cases, cases of obviously nonexcessive profits—which under the practice instituted in 1961 would never be assigned to the regional boards. I do not think you can compare the 464 completions in 1963 with the 1,350 in 1960, because in that 1,350 there were many assignments, that I call "junk" involving very little work.

Mr. JONAS. They got into the statistics?

Mr. HARTWIG. That is right.

Mr. JONAS. And the statistics do not exactly support your contention that you are turning out more work with fewer people compared with 1960, does it?

Mr. HARTWIG. We are turning out at least the same volume of work with fewer people. At the end of 1960 the Board had a staff of 284 people.

Mr. OSTERTAG. How about 1961?

Mr. HARTWIG. In 1961, 271 people.

Mr. JONAS. Did we help you to get rid of some of those?

Mr. HARTWIG. No, sir. We instituted this reorganization on our own.

Mr. OSTERTAG. Will you give us a table from 1961, on through?

Mr. HARTWIG. A table of——

Mr. OSTERTAG. Of employment.

Mr. JONAS. You gave us 1960 and 1961. You didn't give us 1962 and 1963; that is, the number of employees.

Mr. HARTWIG. In 1961, I have given you the figure 271.

Mr. OSTERTAG. Let's keep them all together.

Mr. HARTWIG. At the end of 1960, there were 284; 1961, 271; 1962, 193; 1963, 223.

Mr. OSTERTAG. And your estimated end strength is 225 for 1965, and that is your employment strength during fiscal year 1964?

Mr. HARTWIG. Yes, sir; those are the budgeted positions.

Mr. OSTERTAG. Mr. Chairman, I want to develop a clearer picture of the situation as it exists today as compared with the past. Take the Space Agency which has come into being in recent years. That is one of the large agencies, involving an annual budget of $5 to $6 billion, consisting mostly of the procurement, research and development, testing and other items of that kind. Is the responsibility and work of the Renegotiation Board limited primarily to the Defense and Space Agencies?

Mr. HARTWIG. They are the two largest procurement agencies.

AGENCIES SUBJECT TO RENEGOTIATION ACT

Mr. OSTERTAG. In other words, your work and your responsibility applies to several agencies of Government, does it not?

Mr. HARTWIG. Any agency which is named in the act. In addition to the Defense Department, the list names the Departments of the Army, Navy, and Air Force, the Space Agency, the Atomic Energy Commission, General Services Administration, the Federal Maritime Board, and Maritime Administration.

CONTRACTORS SUBJECT TO RENEGOTIATION

Mr. OSTERTAG. If I recall correctly, your work is only applicable to contracts that exceed $1 million?

Mr. HARTWIG. It is applicable only to those contractors whose receipts or accruals under renegotiable contracts exceed $1 million in a fiscal year of a contractor.

Mr. OSTERTAG. In other words, it is an actual expenditure within a fiscal year of a million dollars or more rather than the whole length of a contract over a period of 5 years which might run into a good

many millions of dollars but in a given year it might only involve a million dollars?

Mr. HARTWIG. That is right. A contractor might conceivably have several contracts, each one of which is less than a million dollars, but if the receipts or accruals under all of those contracts exceed $1 million in a particular fiscal year of the contractor then he would be subject to renegotiation. The $1 million floor does not apply to individual contracts. It applies to the receipts and accruals of each defense contractor, under all his contracts.

Mr. OSTERTAG. You are maintaining a level of operation on the basis of previous years; that is, insofar as staff is concerned and so far as your expenses are concerned. Now, in connection with your workload there is every indication that your workload is going to increase. I think you estimate a total filings of about 12,000 in fiscal year 1965, is that correct?

Mr. HARTWIG. 4,000.

Mr. OSTERTAG. 12,000 total.

Mr. HARTWIG. But the 8,000 below the floor don't involve much work. Actually, it is above-the-floor filings that constitute the basic workload.

Mr. OSTERTAG. Give us a picture, first, comparing any estimate that you have for 1965 with the other years; and second, the difference between above and below the floor so that we can see and have for the record some indication of the meaning of this total number of 12,000 as compared with, let us say, 10,375, which was your workload in 1963.

RENEGOTIATION PROCESS

Mr. HARTWIG. Perhaps I might give the committee a short description of the renegotiation process as a background for this.

Renegotiation is conducted with respect to the receipts or accruals of a contractor under all renegotiable contracts and subcontracts in that contractor's fiscal year.

All contractors whose renegotiable sales exceed $1 million in a fiscal year must file a report with the Board. These reports are examined by the Headquarters Board in Washington. If the profits are obviously not excessive, no further action is taken and the contractor is given clearance. All other cases are assigned for further proceedings to one of two regional boards.

The regional board commences renegotiation, obtains such additional information as it needs, meets with the contractor as required, and then determines whether the contractor realized excessive profits and if so, in what amount.

The Board has delegated to the regional boards final authority to make agreements in cases involving renegotiable profits of $800,000 or less. If in any such case the contractor does not accept a determination of excessive profits, he may appeal to the Headquarters Board. In those cases in which the regional boards do not have final authority, all their determinations must be approved by the statutory board.

On any final order of the Board with which the contractor does not agree, the contractor may obtain a redetermination by filing a petition in the Tax Court of the United States.

In the context of this general description of the renegotiation process we estimate that this year, 1964, and again in 1965, 4,000 contractors

will have receipts or accruals under renegotiable contracts in excess of $1 million and therefore will be required to file with the Renegotiation Board.

We estimate that about 8,000 contractors will file with the Board what we call "statements of nonapplicability." In other words, they will tell the Board that they had renegotiable sales of less than $1 million, and therefore may not be renegotiated.

Actually, a contractor who is under the floor is not required to file anything with the Board. He may do so. If he does file a statement of nonapplicability, that puts the Board on notice that the contractor claims that he is under the floor; and the Board has a year to check the validity of the statement. If the Board takes no action within a year, the contractor is for all purposes discharged from any further obligations. You can see then that the cases which require most attention are the 4,000 above the $1 million floor.

We estimate that out of the 4,000, approximately 650 will be assigned to the regional boards in 1965. In other words, we anticipate an increase in the more difficult cases that require time-consuming investigation in the field.

The difference between 600 and 650 assignments to the field may seem to be small, but the difference in workload is considerable when it is understood that an assignment to the field requires 16 months, on the average to process. If the Board is able to screen out the case at headquarters it can be completed in an average of 66 days. So you can see the difference in man-hours between being able to——

Mr. THOMAS. Will the chairman yield just briefly?

Mr. OSTERTAG. I yield.

ASSIGNMENT TO REGIONAL BOARDS

Mr. THOMAS. Your tale is told pretty well on the bottom of page 10, the last sentence [reading]:

> As a result of examining above-the-floor filings during fiscal year 1963, 3,517 cases were completed at the headquarters level by clearance without assignment, and 551 were assigned to the regional boards.

My question is, What was the disposition? What action was taken on the 551? There is really the backbone of your workload. How many were disposed of in the field? The field has unlimited jurisdiction in renegotiable amounts up to $800,000. Above that we understand. How were those 550 cases disposed of? How many of them had to come back to the big Board? What is a "horseback" opinion?

Mr. HARTWIG. The regional boards completed 464 assignments.

Mr. THOMAS. That is 80 percent?

Mr. HARTWIG. There was a slight slippage last year.

Mr. OSTERTAG. That is 464 out of 551.

Mr. HARTWIG. That is right.

Mr. OSTERTAG. You estimate there will be 551 for the next year.

Mr. HARTWIG. Yes; this is where I hope we will increase our efficiency.

Mr. OSTERTAG. You have more pending, though.

Mr. HARTWIG. That is right. We have 500—as a matter of fact——

Mr. OSTERTAG. Your backlog is increasing?

Mr. HARTWIG. In the region.

Mr. JONAS. May I ask a question right there?

Mr. OSTERTAG. Yes.

COMPLETED AND ASSIGNED CASES

Mr. JONAS. Please, Mr. Chairman, go back to this table on page 9 and tell us why your number of completed cases as they relate to those assigned are substantially lower in 1963 than they were in 1962, 1961, and 1960. The field completed more cases in 1960 than were sent out. They ate into the backlog. There is a similar situation in 1961. They ate into the backlog. They completed 1,300 cases—1,299—and you only sent them 926 new ones. In 1962 they completed 669 and only received 386 new ones, but in 1963 you sent them 551 new ones and they only completed 464.

Mr. HARTWIG. Two things happened in that period. First of all we strengthened the screening process so as to stop sending cases unnecessarily to the regional boards. This is evidenced by the figures on the line "assigned." The assignments in 1960 were 1,103; in 1961 this new screening practice came into effect for the last 2 months of that year, so assignments dropped to 926. In 1962 the new practice was effective for a full year, and there were only 386 new assignments to the field. Assignments stepped up in 1963 because——

Mr. JONAS. It went into reverse.

Mr. HARTWIG. We received more profitable cases. You cannot screen out a case unless it involves a loss or obviously nonexcessive profits. We have no control over the number of profit or loss cases filed with the Board. In any event, you can see that by a more efficient screening practice at headquarters we stopped sending out mere paper to the regional boards. At the same time——

Mr. JONAS. I do not see how that follows, when you compare 1962 to 1963. You sent more out than you did in 1962.

Mr. HARTWIG. These were hard cases. This was a realistic workload.

PROFIT TREND

Mr. JONAS. Why would you get more junk cases one year than another year?

Mr. LOVELESS. If I might interrupt a second to take you back a little bit, the general trend of profits through the period 1958–59 fiscal years, for example, was downward and this trend has been reversed in industry, generally, whether in Government- or commercial-type business. This later profit picture has an upward trend and this naturally means more profitable filings received and less loss filings.

Mr. HARTWIG. Let me see if this will help, sir. If you will look at the line "screened out," you will see that in 1960, 2,977 filings were screened out. That was in 1960; whereas in 1963 that number had increased to 3,517. This shows that in 1963 we were clearing more cases at headquarters and not sending them out to the field. This resulted from the new policy which the Board instituted in the latter part of fiscal year 1961. At the same time, we conducted a production drive and reduced our staff. Just bear that in mind. That happened at that time.

Mr. JONAS. You increased it from 1962 to 1963. It went from 193 to 223 people.

Mr. HARTWIG. From 1961 to 1963, that is the period you should look at.

Mr. JONAS. All right. Go ahead.

CASE PROCESSING TIME

Mr. EVINS. I wanted to ask the Chairman about the time of processing cases, from the time they are assigned or the time that they are initially reported. How much time is consumed in the final disposition of the case, assuming it does not go to the Tax Court, but is settled by the Board?

Mr. HARTWIG. Referring to the sentence on page 10, that Mr. Thomas read, the 3,517 cases completed at headquarters in 1963 were completed on an average of 66 days. The 464 that were completed in the field and through the Board required 16 months on the average.

Mr. EVINS. Through the field it is about 16 months and through the Board they average about 66 days.

Mr. HARTWIG. Yes, sir.

Mr. EVINS. How about your annual returns to the Treasury? What is the amount of this?

Mr. OSTERTAG. He gave the figure.

Mr. EVINS. He gave us the total since the Board was created.

Mr. OSTERTAG. Over $1 billion, wasn't it?

Mr. HARTWIG. Yes. I gave you the total since the Board was created and I gave you the figures for the last year, the last fiscal year.

Mr. THOMAS. Anyway, you are showing a profit, are you not?

Mr. HARTWIG. We always have.

CASES TAKEN TO TAX COURT

Mr. OSTERTAG. I believe you did mention in your statement, the number of cases taken to Tax Court. What is the batting average of the Board in connection with Tax Court cases?

Mr. HARTWIG. The Tax Court has disposed of 63 of 123 appeals taken to the court since the Board was instituted. In 38 of the 63 cases the Tax Court upheld the Board's determinations; in 4 cases the Tax Court increased the Board's determinations; and in 21 cases they were decreased.

Mr. SHIPLEY. May I ask a question?

Mr. OSTERTAG. Yes.

Mr. SHIPLEY. How did you come out financially on those cases with respect to what the Board had done for increasing and decreasing?

Mr. HARTWIG. The money involved?

Mr. SHIPLEY. Yes.

Mr. HARTWIG. The total amount of the Board's determinations involved in the 63 cases which the court disposed of was $51,052,427. After the Tax Court had redetermined all 63 cases the total amount as redetermined was $49,057,310.

Mr. THOMAS. That is pretty good.

TYPES OF CONTRACTS REVIEWED

Mr. OSTERTAG. There are various and sundry types of contracts—competitive bidding and negotiated bids, fixed prices, standardization of contracts.

The Secretary of Defense has indicated that they are rapidly moving into a greater degree of competitive bidding. Do you find that the nature of these contracts has brought about this tremendous amount of excess profits?

Mr. HARTWIG. Of course, most of the business that we review involves negotiated contracts. It is very interesting to note that during the 1963 fiscal year, out of the total $31,200 million of sales which the Board reviewed, 35.4 percent involved cost-plus-fixed-fee contracts and less than 18 percent involved so-called incentive-type contracts.

POSITION ON VARIOUS TYPES OF CONTRACTS

Mr. OSTERTAG. What is the view of the Board with regard to incentive-type contracts?

Mr. HARTWIG. The Board has issued a press release in connection with the new incentive program of the Defense Department which I would be happy to read into the record.

Mr. OSTERTAG. What is the general gist of it?

Insert the statement in the record.

(The statement follows:)

[For release on Apr. 17, 1962]

THE RENEGOTIATION BOARD

Washington, D.C.

Release No. 3–62

Recent statements in the public press, said Chairman Lawrence E. Hartwig, of the Renegotiation Board today, suggest the need to state the position of the Board with respect to the intensified efforts of the Department of Defense to cut defense costs by increasing profit opportunities in incentive-type contracts.

The Renegotiation Board has followed with interest the formulation of the Department's incentive program, and recognizes its objectives. The Board understands that the new program represents an expansion and modification of past incentive arrangements. The Board is aware that the Department hopes to achieve its aim of greatly reducing the cost of new weapons, improving their quality and speeding their development, by encouraging and rewarding performance efficiency and by penalizing inefficiency. The Board believes that the Renegotiation Act does not impede the proper accomplishment of these objectives.

Under the Renegotiation Act and regulations, the Renegotiation Board rewards demonstrated efficiency by according it "favorable recognition" in determining whether and the extent to which the contractor's total profits, from all its contracts in a fiscal year, are excessive in the light of the several factors prescribed in the Renegotiation Act. The Board's determination is not earmarked to the profits on any particular contract, or any particular portion of a contract. Bonus profits realized under an incentive-type contract, and the performance facts that gave rise to them, are a part, but only a part, of the total renegotiation case.

The regulations of the Board state that particular attention will be given, under the statutory factor of efficiency, to the nature and objectives of incentive contracts and the extent to which any differences between estimated costs and actual costs are the result of the efficiency of the contractor. The regulations also state that the Board will consider and give due regard to the views of the contracting agencies on such differences and the reasons therefor. It is believed that these and other provisions of the regulations are adequate to enable the Board, as an independent agency, to give fair and proper consideration to performance excellence in the context of the whole case under all the factors prescribed in the renegotiation law.

To help the Board evaluate contract performance, the Department of Defense has advised that it will endeavor to provide the Board with more precise and

discriminating reports than it has heretofore furnished for Board use in renegotiation proceedings with individual contractors. The Board welcomes this cooperation.

Mr. THOMAS. Will you yield?

Mr. OSTERTAG. Yes.

Mr. THOMAS. Two or three years ago we went into this in some detail with the Renegotiation Board. If my memory serves me correctly, the Renegotiation Board was very strong in favor of open, competitive, notorious bidding. They didn't like cost-plus or incentive or anything else. Is that still the attitude of the Board?

Mr. HARTWIG. It is still my attitude that the best way to get the best price is to have effective competition.

Mr. THOMAS. What is the attitude of the Board on negotiated contracts generally, whether it is incentive, cost-plus or what? What is your attitude on negotiated contracts as compared with an open, notorious, competitive bid?

Mr. HARTWIG. I think it is much more difficult to get a good price when you are negotiating, with no price competition, than when you have competition.

Mr. THOMAS. Are the Air Force, the Army, the Navy, and the space agency generating new business?

Mr. HARTWIG. The space agency is becoming a more important factor.

Mr. OSTERTAG. Very few of their contracts are competitive.

Mr. HARTWIG. That is right.

Mr. OSTERTAG. Take, for example, a cost-plus type contract. How could there be excessive profits in a case of that kind?

Mr. HARTWIG. There could be excessive profits if the parties in estimating the fee have miscalculated the estimated cost.

INCENTIVE CONTRACTS

Mr. OSTERTAG. Getting back to my other question, what is the view or attitude of the Board on incentive-type contracts? You say you have a statement but in a few words, what is it?

Mr. HARTWIG. Certainly the Board endorses any effort to lower the cost of defense. Incentive is nothing new to this Board. As a matter of fact, incentive in one sense is the keystone of the renegotiation statute itself. One of the reasons Congress gave this Board broad discretion to renegotiate contractors, taking into account the so-called statutory factors of efficiency, reasonableness of costs, et cetera, was to have a profit limitation act that would not destroy incentive. As I understand it, one objective of the incentive contract program is to reward the efficient producer with more profit than the inefficient producer; and insofar as that is an objective of the program, I see no difference in objectives. Of course, renegotiation looks at the picture differently than the procurement agencies because they are engaged in contract-by-contract procurement and we are engaged in after the fact review of the total profits of a defense contractor in a particular fiscal year.

MONITORING OF CONTRACTS BY ORIGINATING AGENCY

Mr. OSTERTAG. I inquired as to the plans for the future; that is, your act expires this June. The question arises: Why is it not possible to have a greater degree of attention paid by the departments and agencies themselves to these contracts? They all have their legal divisions, they have their contract divisions, and they are familiar with their own contracts. Why wouldn't it be possible for them to monitor their own contracts?

Mr. HARTWIG. Well, I think they do a lot of monitoring now on an individual contract basis. The renegotiation statute requires that profits be reviewed on the basis of a contractor's fiscal year. This is an entirely different way of monitoring profit results.

Mr. THOMAS. Mr. Ostertag, wouldn't that put them in the basis of being judge and jury, though?

Mr. OSTERTAG. I just raised the question.

RESEARCH AND DEVELOPMENT CONTRACTS

Mr. THOMAS. The thing that disturbs me is research and development contracts. There we get into some pretty sizable funds. Why can't they lay down some standards or plans and specification where they can go out on the open market and negotiate a firm contract rather than letting a research and development contract on the basis of incentive or any other type of contract? Can't you just say, "This is a competitive bid"? We know the arguments. The people say to the agency, "We are plowing a virgin field and there is too much guesswork." The contractors would put a scare price on it. Do you buy that argument? Isn't it possible for them to take a research and development project and say, "Sharpen your pencils. Give us a figure. Here is what we want done. Lay it down." Is it possible to do that? What is the Board's experience along that line? You see more contracts than everybody else combined because they all sooner or later have to come to you. What is your judgment on it?

Mr. HARTWIG. First of all, the best incentive contract form which was ever written is the firm fixed price contract.

Mr. THOMAS. That is the way it seems to me.

Mr. HARTWIG. Nobody has been able to improve on the old-fashioned firm fixed price contract.

Mr. THOMAS. Is it possible under a research and development contract when you are dealing with the unknown to come up with a fixed price contract? That is the question.

Mr. HARTWIG. In some instances this might be possible. In others, the costs would be so uncertain that contractors would not assume the risk involved in a firm fixed price contract.

Mr. OSTERTAG. It would seem to me that a fixed price contract would be the type of contract that would lend itself to excess profits.

Mr. HARTWIG. It could. So could any other form of contract.

Mr. LOVELESS. The fixed price contract places a higher risk upon the contractor because he says, "I am going to do it for x dollars, and if his costs exceed that, that is out of his pocket."

REVIEW OF SUBCONTRACTS

Mr. HARTWIG. May I make one further comment with respect to your suggestion about the agency's monitoring contracts? They

couldn't, of course, monitor subcontracts and the Renegotiation Board does.

Mr. OSTERTAG. You mean where they exceed $1 million?

Mr. HARTWIG. Yes. Last year the Board reviewed subcontract sales in the total amount of some $7 billion.

Mr. OSTERTAG. What about the contracts with nonprofit corporations?

Mr. HARTWIG. They are not subject to renegotiation.

Mr. OSTERTAG. Are there any further questions?

(No response.)

Mr. THOMAS. Thank you, gentlemen. Come back to see us. We are always delighted and honored to have you.

WEDNESDAY, FEBRUARY 5, 1964.

FEDERAL HOME LOAN BANK BOARD

WITNESSES

JOSEPH P. McMURRAY, CHAIRMAN OF THE BOARD
JOHN E. HORNE, MEMBER OF THE BOARD
JOHN deLAITTRE, MEMBER OF THE BOARD
KENNETH E. SCOTT, GENERAL COUNSEL
NATHANIEL L. ARMISTEAD, DIRECTOR, OFFICE OF EXAMINATIONS AND SUPERVISION
LAWRENCE M. WALTERS, DIRECTOR, DIVISION OF EXAMINATIONS
ALBERT V. AMMANN, ASSOCIATE DIRECTOR, DIVISION OF SUPERVISION
WILLIAM H. HUSBAND, DIRECTOR, OFFICE OF DIRECTOR, FSLIC
ELMER S. FRAZIER, DIRECTOR OF AUDITS
THADDEUS CORCORAN, BUDGET OFFICER

ADMINISTRATIVE EXPENSES

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	1,416	1,744	2,806
	Positions other than permanent	6	15	16
	Other personnel compensation	17	16	16
	Add excess of annual leave earned over leave taken	29	36	32
	Total personnel compensation	1,468	1,811	2,870
	Deduct portion not chargeable to limitation	2		
	Net personnel compensation	1,466	1,811	2,870
12	Personnel benefits	103	137	214
21	Travel and transportation of persons	97	100	118
22	Transportation of things	1	1	1
23	Rent, communications, and utilities	164	230	480
24	Printing and reproduction	6	13	41
25	Other services	17	22	39
	Services of other agencies	20	31	32
26	Supplies and materials	42	46	72
31	Equipment	58	39	23
	Total accrued expenses—costs	1,974	2,430	3,890

Personnel summary—Administrative expenses

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	195	225	328
Average number of all employees	174	202	328
Employees in permanent positions, end of year	178	223	328
Employees in other positions, end of year	18	0	0
Average GS grade	8.3	8.8	8.3
Average GS salary	$8,102	$8,871	$8,580
Average salary of ungraded positions	$5,812	$5,843	$5,884

Program and financing—Administrative expenses

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Examination and supervision of Federal home loan banks	254	311	341
2. Chartering savings and loan associations	173	249	
3. Chartering Federa. and insuring savings and loan associations			505
5. Executive direction and staff services	1,028	1,300	1,565
6. Analysis of operations			649
7. Administrative services	519	570	830
Total accrued expenses—costs [1]	1,974	2,430	3,890
Financing:			
Unobligated balance lapsing	64		
Limitation	2,038	2,430	3,890

[1] Includes purchase of equipment as follows: 1963, $63,000; 1964, $46,000; 1965, $27,000.

Nonadministrative Expenses

Program and financing—Nonadministrative expenses

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
2. Supervision of Federal and State-chartered institutions	568	666	758
4. Examining savings and loan associations	10,245	11,480	12,127
5. Executive direction and staff services	391	501	558
Total accrued expenses—costs [1]	11,204	12,647	13,443
Financing:			
Unobligated balance lapsing	377	153	
Limitation	11,581	12,800	13,443

Includes purchase of equipment as follows: 1963, $51,000; 1964, $39,000; 1965, $18,000.

Object classification—Nonadministrative expenses

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	7,148	8,208	8,921
	Other personnel compensation	47	71	36
	Add excess of annual leave earned over leave taken	118	119	65
	Total personnel compensation	7,313	8,398	9,022
	Deduct portion not chargeable to limitation	74		
	Net personnel compensation	7,239	8,398	9,022
12	Personnel benefits	543	636	686
21	Travel and transportation of persons	2,724	2,856	2,912
22	Transportation of things	12	11	11
23	Rent, communications, and utilities	342	370	404
24	Printing and reproduction	37	35	38
25	Other services	8	9	9
	Federal Home Loan Bank Board services	197	243	292
	Services of other agencies	9	4	5
26	Supplies and materials	42	46	46
31	Equipment	51	39	18
	Total accrued expenses—Costs	11,204	12,647	13,443

Personnel summary—Nonadministrative expenses

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	985	989	989
Average number of all employees	895	943	968
Employees in permanent positions, end of year	916	959	964
Employees in other positions, end of year	2	0	0
Average GS grade	9.8	10.1	10.1
Average GS salary	$8,190	$9,019	$9,245

Mr. JONAS. The committee will please come to order.

We have with us today the representatives of the Federal Home Loan Bank Board, including the Chairman of the Board, accompanied by other members of the Board, general counsel, and staff members.

Mr. McMurray, do you have a statement you would like to read into the record or discuss?

Mr. MCMURRAY. Yes, sir. I would be pleased to.

Mr. JONAS. If so, proceed.

GENERAL STATEMENT

Mr. MCMURRAY. Mr. Chairman and members of the committee; my associate, Mr. John deLaittre, and I believe Mr. Horne will be with us—he had to go to the morning prayer breakfast. I presume he has been delayed because the President attended it and it is difficult to leave before the President does.

I would like to, before I proceed, introduce the other staff members who are with us. We have Kenneth Scott, our general counsel; Mr. Nathaniel Armistead, Director, Office of Examinations and Supervision; Mr. Lawrence Walters, Director of Examinations; Mr. Victor Ammann, Associate Director, Division of Supervision; Mr. Elmer Frazier, Director of Audits; Thaddeus Corcoran, our budget officer, and Dr. William Husband, Director, Office of the Director of Insurance Corporation.

My associates and I appreciate the opportunity of appearing before you to discuss with you the activities of the savings and loan business

and the 1965 budget requirements of the Federal Home Loan Bank Board, including the Federal Savings and Loan Insurance Corporation.

The budget assumptions anticipate a continuing upward trend in the total assets, mortgage loans, net savings, and reserves for losses of the member associations of the Federal Home Loan Bank System. Growth is expected to continue at a rate greater than that experienced in fiscal 1963.

The agency's 1965 budget estimates, submitted in three parts, as business-type budgets, consist of:

Unit	Positions	Estimate
Board and staff offices	343	$3,890,000
Office of Examinations and Supervision	1,000	13,443,000
Federal Savings and Loan Insurance Corporation	16	225,000
Total	1,359	17,558,000

The estimates are based on the assumption that there will be no basic change in economic conditions during the budget year.

The estimates reflect two positions less than authorized for the current fiscal year, notwithstanding the fact that the estimate for the Board and staff offices includes the new Division of Regulations with seven positions, and the new Organization and Methods Division with two positions, no provision for which was made in the original Board estimates for the current fiscal year.

REORGANIZATION

In its efforts to further increase efficiency and at the same time effect economies where possible in the agency's operations, the Board adopted, and made effective January 1, 1964, recommendations revising the functional and organizational structure of both the Board and staff offices, and the Insurance Corporation; the estimates reflect these actions.

Among other things, the reorganization merges into single units, basically parallel or like functions. These include the merging of the division in the Insurance Corporation handling applications, with the division in the Board also handliing applications, and the merging of the Comptroller's Division of the Insurance Corporation with the Comptroller's Division of the Board. The Operating Analysis Division of the Insurance Corporation was also transferred to the Board for purposes of general program guidance. Increased efficiency is expected to result from these actions and a further reduction in personnel is anticipated after the transition period associated with the reorganization is completed.

GROWTH OF SAVINGS AND LOAN BUSINESS

During fiscal 1963 the savings and loan business continued to expand. All of its activities reached new peaks as reflected in the following statistics:

Membership in the Federal Home Loan Bank System at June 30, 1963, was 4,971, an increase of 105 for the fiscal year. In the same

period, total assets of the membership reached $100.8 billion, a gain of 16.1 percent.

The dollar volume of mortgage loans made by member savings and loan associations in fiscal 1963 aggregated $22.2 billion. This figure broke the alltime record set 1 year ago by $3.3 billion or 17.4 percent.

Of the total amount of loans made, representing 44 percent of the Nation's home-financing activities, 29 percent was for construction, 40 percent for home purchase, and 31 percent for other purposes such as reconditioning, refinancing, etc.

Despite keen competition for the savings dollar, the gross flow of savings into member savings and loan associations during fiscal 1963 aggregated $33.3 billion, an increase of 14.8 percent over fiscal 1962. Withdrawals amounted to $22.4 billion leaving a net inflow of $10.9 billion; this latter figure broke the alltime record set 1 year ago by 25.3 percent.

Earnings, new savings, and reserves for losses in member savings and loan associations in fiscal 1963 also reflected substantial increases over 1962.

FEDERAL HOME LOAN BANKS

The 11 Federal home loan banks reflected increases in every phase of their activities during fiscal 1963. Aggregate assets increased by 27.3 percent reaching $5.4 billion. Capital stock, held by members only, increased by 1.9 percent to $1.1 billion. Total capital increased by 2.8 percent reaching $1.3 billion, and legal reserve increased by 14.6 percent to $72.7 million. Net income of the 11 banks for the fiscal year increased by 7.3 percent reaching $46.5 million. Investments increased by 45.1 percent to $1.9 billion. Loans or advances to members aggregated $4.5 billion, an increase of 25.5 percent over the peak figure established in fiscal 1962. Repayments totaled $4 billion, an increase of 48.7 percent over the previous year. Loans or advances outstanding at June 30, 1963, aggregated $3.3 billion, an increase over fiscal 1962 of 18.2 percent. The Board made 10 offerings to the public of consolidated Federal home loan bank obligations during fiscal 1963 aggregating $2.9 billion, an increase over fiscal 1962 of $536 million or 22.4 percent. The balance outstanding at June 30, 1963, reflected an increase of 54 percent over the balance at June 30, 1962.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Membership in the Federal Savings and Loan Insurance Corporation reached 4,386 at June 30, 1963, an increase of 119 for the fiscal year. Members' assets during the same period increased by 15.3 percent to $96.2 billion. I might mention here that although insured associations represent only 70 percent of all savings and loan associations, they hold 96 percent of the assets of all savings and loan associations.

Mortgage loans made by the membership in fiscal 1963 aggregated $21.9 billion. This figure broke the alltime record set the previous year by 17.7 percent. Members' reserves for losses increased by 12.3 percent to $6.4 billion; such reserves for losses represent 7.7 percent of total savings accounts.

The assets of the Insurance Corporation increased by 40 percent during fiscal 1963 reaching $934.3 million at June 30, 1963. Its net

income increased by 18.3 percent to $72.3 million at June 30,1963. Its insurance reserves during the same period increased by 41.1 percent to $902.5 million.

The Corporation's potential liability increased by 15.6 percent to $83 billion at June 30, 1963. Insurance losses for the fiscal year aggregated $3.2 million, an increase of 38.1 percent over the total at June 30, 1962.

I thank you, gentlemen, for the opportunity of making this statement; my associates and I shall be glad to answer any questions you may wish to ask.

Mr. JONAS. That is a very clear statement and shows phenomenal growth continuing in the savings and loan industry.

Mr. MCMURRAY. Yes, sir.

INCREASE IN BUDGET ESTIMATES

Mr. JONAS. Right at this point I might add that the justifications show your expenses are increasing at about the same rate.

Mr. MCMURRAY. Well, as a matter of fact, the number of personnel, where we have control, as you will notice, has not increased, and the expenses—what, Mr. Corcoran, is the increase in the dollar amount that we are requesting?

Mr. CORCORAN. Board and staff offices is $1,460,000 and in the Insurance Corporation there is a reduction of $1,090,000.

Mr. MCMURRAY. What is the net?

Mr. CORCORAN. The increase, including the Board and staff offices, and the Insurance Corporation, is $370,000.

Mr. JONAS. That is in the Insurance Corporation?

Mr. CORCORAN. That is both the Insurance Corporation, and the Board and staff offices.

Mr. MCMURRAY. It is a relatively small increase compared with any previous year. In fact, Mr. Congressman, we feel that we have done a very effective job at controlling our expenses and I think by the reorganization we have made our operation highly efficient, and I think that the increases in expenses are those due to the natural increases in salaries and things of that nature.

Mr. JONAS. I was looking at the table on page 2 which shows that you have had substantial increases in 1964 over 1963 and you are asking for a substantial increase in 1965 over 1964. I think the spread over the 3 years is nearly $5 million.

We will get into that a little bit later. You go up from $13.4 million in 1963 to $17.8 million in 1965. Those are your total expenses.

Mr. MCMURRAY. Yes, sir.

Mr. JONAS. While we are talking about that page, I notice your income is up substantially. Have you increased fees or is that because of more participation?

Mr. CORCORAN. Mr. Congressman, that table shows the funds applied and provided. If you will look at page 3 you will find the income increase between 1963 and 1964 and 1964 and 1965 and the net——

Mr. JONAS. The figures are the same on both pages.

Mr. MCMURRAY. Yes. We pay our own expenses.

Mr. JONAS. I understand.

(Discussion off the record.)

Mr. JONAS. What is the experience now with foreclosures in conventional loans? Is that troubling us as much as direct loans and Government-guaranteed loans?

Mr. MCMURRAY. Yes. Well, I have some statistics here. We anticipated you might be interested in this subject.

The foreclosures have increased continuously. Our last report covers the first 9 months of 1963 and there were 73,844 foreclosures, which compared with 64,399 in 1962. That is an increase of 15 percent over last year.

In terms of previous years it has gone up steadily since 1955. In 1955 there were 21,611. In other words, the numbers have increased over three times since 1955. However, the foreclosure rate for conventional loans is clearly smaller than for FHA and VA loans.

Mr. JONAS. What is your personal explanation or feeling as to the cause of this in a period of increasing business activity and prosperity and with all of the new money that is generating in savings accounts, et cetera?

Mr. MCMURRAY. First of all, at this rate, while it is higher, it is not so high that we consider it a terribly serious situation. We are concerned about it because we do not want it to continue, but you take, for example, in 1935, when, with a much lower housing inventory, there were over 177,000 foreclosures, with probably some 35 to 40 percent less houses. The rate is not such that we consider we are in serious condition. However, I would say one of the reasons is we have, relatively speaking, caught up with the demand for housing much more than we had in 1955. As you know, there was a great shortage of housing since World War II and, with this committee's help and the various laws that were passed, we have effectively provided houses for people who needed them.

We were, as you know, in a more or less inflationary situation up until the last few years. Now things are more or less stabilized; it was possible once to live in a house for a few years and then sell it at a profit. This no longer is a certainty. The greater stability in the price of houses results in foreclosures if the economy is even a little weak.

I would say that the rate of increase in foreclosures and properties deeded over has not expanded. The rate of increase has slowed down, which is somewhat encouraging.

I was interested in what was happening in the FHA and VA and I noticed the foreclosure rate on FHA's was 1.03 per hundred, or 10.30 per thousand. Their inventory in 1962 for acquired homes was 39,000 and their sales in 1963 were 50,000.

Mr. THOMAS. What was your inventory for the same period? I say "your inventory," meaning the Federal and State associations.

Mr. MCMURRAY. We do not have those kinds of statistics, Mr. Chairman.

Mr. THOMAS. What do you have?

Mr. MCMURRAY. I can give you some statistics which would indicate what the situation is in savings and loan associations.

SAVINGS AND LOAN PERCENTAGE OF HOUSING MARKET

Mr. THOMAS. What part of the total market is the building and loan association handling now; around 50 percent?

Mr. MCMURRAY. In terms of loans?

Mr. THOMAS. Yes.

Mr. MCMURRAY. I would say we have about 9 million mortgages that are being held by savings and loan associations and what the number foreclosed is——

Mr. THOMAS. Don't we say the building and loan associations have about 50 percent of the business?

Mr. JONAS. His statement shows 44. I thought it used to be up in the 60's a few years ago.

Mr. HUSBAND. No.

RATE OF FORECLOSURES

Mr. MCMURRAY. You have to be careful of these statistics. We use in our statistics the rate per thousand of homes that are foreclosed, and I can give you those statistics. You cannot compare them with these.

Mr. JONAS. What is your rate compared with FHA and VA rate?

Mr. MCMURRAY. The rate is 1.03 per hundred or 10.30 per thousand.

Mr. JONAS. That was FHA, you said?

Mr. MCMURRAY. Yes, sir.

Mr. JONAS. Yours is the same?

Mr. MCMURRAY. No, sir. These are simply—what I am giving you here is the foreclosure rate of the homes that are insured by FHA and when I give you the statistics on the savings and loan foreclosure I will give you rates on all the mortgages held by saving and loan associations and the rate of foreclosure and in our statistics we include some VA and FHA, but the point I am making here is not the statistics, the rate, but rather what I am trying to show is that the sales in terms of those acquired appear pretty good.

For example, they had an inventory in 1962——

Mr. THOMAS. Who is "they" now?

Mr. MCMURRAY. FHA.

Mr. THOMAS. Let's talk about your business. What is your rate?

Mr. MCMURRAY. In all districts—this is the number of foreclosures by Federal saving and loan, and insured savings and loan associations—that is, both State and Federal—and the ratios to the number of mortgage loans outstanding by Federal bank districts. We have it. The total, our rate is 4.92 per 1,000 loans.

Mr. THOMAS. How does that compare with FHA and VA?

Mr. MCMURRAY. The FHA—we have it broken down by FHA, VA, and conventional. The rate for FHA's held by our association is 12.45. The rate for VA's per 1,000 is 7.67, and the rate for conventional is 4.10. The average for all is 4.92. The saving and loan associations do not hold very much FHA's and VA's. That accounts for the relatively high rate of FHA and VA foreclosures but it does not show strongly in the overall average.

Mr. THOMAS. That is about what private industry is doing against Government, I guess.

What is the average loss that you take on one of these properties? What is the FHA loss, about a thousand dollars? We usually figure in round figures about $1,000.

Mr. McMURRAY. I do not know, if we have the statistics but from talking to the people in the industry, for example, in Florida, where they had a lot of foreclosures, they tell me they haven't lost anything on their foreclosures.

Mr. THOMAS. You have a different market there. What about in a State where the market is more stable?

Mr. McMURRAY. I took one of the worst areas. I do not know. John deLaittre had a lot of experience in this area. What would you estimate, John, the loss would be on a foreclosed piece of property? If you are a good lender you should not have a loss because you should not make a loan in excess of what you think the property will sell at a forced sale so that in many cases they make a profit.

Mr. DELAITTRE. I would be unable to estimate, Mr. Chairman, what the loss would be today on some of the foreclosures in some of the States where there are quite a few properties on hand.

I think the estimate we got the other day was that the FHA had about 50,000 properties on hand. What they would lose I couldn't guess. In my own experience with foreclosures, we suffered no losses. In fact, we had some profits.

Mr. JONAS. I read in the paper they turned down an offer of $40 million for their houses in Florida.

Mr. McMURRAY. Yes.

Mr. JONAS. Mr. Brownstein said that was too low. It was about 50-odd percent, I think, according to the press story, of the appraised value.

Mr. DELAITTRE. Of the appraised value, not the amount that they had in it?

Mr. JONAS. I think it was the appraised value. It might have been the amount of the loan.

Mr. THOMAS. In the average foreclosure in the State and Federal institutions, as far as the insurance corporation is concerned, there is no loss?

Mr. McMURRAY. The average foreclosure is 4.92. That is almost five houses in a thousand.

Mr. THOMAS. I mean to the individual savings and loan association. There is no loss to it?

Mr. McMURRAY. What was the question?

Mr. THOMAS. There is no loss to the individual building and loan association?

Mr. McMURRAY. I do not have the statistics but I do not think there are any losses yet.

Mr. THOMAS. That is almost phenomenal, isn't it?

Mr. JONAS. They would not charge it as a loss until they disposed of the property. In many cases I guess they buy the properties in and hold them in inventory.

Mr. McMURRAY. I was surprised, Mr. Chairman, to hear what you said about a $1,000 loss on each foreclosed home. I did not expect the loss on FHA's and VA's would be that high.

Mr. THOMAS. I think that is the figure we used, isn't it? We used a figure of about $1,000 per house.

Mr. HORNE. My guess is that some associations would also lose on individual foreclosed mortgages. I think another point, too, Mr. Chairman, that might be made here, is that under FHA and VA, generally speaking, the downpayment on the part of the purchaser is less than the downpayment of the purchaser of the home under conventional financing.

Mr. THOMAS. That is one of the reasons why your foreclosures are fewer.

Mr. HORNE. That is true.

REGULATIONS ON RESERVES

Mr. THOMAS. Mr. Jonas, during the summer and the fall months we were all besieged with a lot of letters. Maybe the chairman and colleagues on the Board will go into it with you. He was raising the reserve. Get a final picture of what he did about it and why it was necessary and what States was the trouble coming from, if any.

Mr. MCMURRAY. Well, you are referring to our regulation on reserves, are you not, Mr. Chairman?

Mr. THOMAS. Yes. That stems from foreclosures, does it not?

Mr. MCMURRAY. Yes, sir, in part.

I would like to talk to you about this problem, but it might be wiser. if you decide afterward or now to do it off the record, because some of the things I would like to tell you about may not be the kind of things to have in the record.

Mr. THOMAS. Is there any objection?

(Discussion off the record.)

Mr. THOMAS. Tell us what you did. Let this be for the record.

Mr. MCMURRAY. First of all, we put out a regulation on fees and discounts. This regulation requires that any fee in excess of 1 percent on a regular mortgage loan for an existing or a new house, anything in excess of 1 percent has to be amortized over a period of 7 years; on a construction loan, any fee in excess of 2 percent has to be amortized over a period of 7 years.

Now the purpose of this was to prevent associations, which in making loans collected high fees, from bringing them into current income.

By bringing them into current income the associations could afford to pay high dividend rates. Actually, they were paying out dividends which were really being earned in the future; from the standpoint of good accounting practices, they should have amortized the fees.

Good associations do it. Some of the others did not do it. So the regulation has had the effect of reducing the amount of current income and therefore making it more difficult for such associations to pay dividends in excess of their real earnings for that year.

The second regulation we put out—and it is a rather complicated regulation, but as simply as I can explain it—the regulation provides that associations are required to obtain 5 percent reserves in 20 years.

Most associations under this regulation, have to put 6 percent of their increase in risk assets into reserves.

Now we have made some variations. For example, associations which are not 20 years of age only have to meet what we call the bench-

mark requirements, except that if they are over $25 million—is it over $50 million?

Mr. SCOTT. $50 million for the 6 percent.

Mr. MCMURRAY. At $25 million they only have to allocate 5 percent, and if they are over $50 million, 6 percent.

The general effect of this will be to require all associations to maintain their reserves at 5 percent or something above that. The effect of it also is to brake very fast growth, because if you grow very fast you have to put quite a lot of your income into reserves.

For the record I would like, if I may, to put a clear and complete explanation into the record at this point—may I do that?

Mr. THOMAS. Surely.

(The information supplied follows:)

Beginning in 1964, an institution insured by the Federal Savings and Loan Insurance Corporation must meet two different kinds of reserve requirements under the recent amendment to insurance regulation 563.13 (29 F.R. 43).

The first requirement relates to the institution's Federal insurance reserve account and net worth levels. The prior regulation required an insured institution to establish and maintain a Federal insurance reserve account and increase it by at least one-fourth of 1 percent each year, so that after 20 years of insurance the reserve would be at least 5 percent of savings. The new regulation retains this structure and, in addition, requires that the institution's total net worth be equal to at least the corresponding Federal insurance reserve benchmark requirement plus 20 percent of scheduled items. (Scheduled items is a category of the more doubtful assets including delinquent loans and real estate acquired by foreclosure.)

The second requirement deals with regular periodic credits to the Federal insurance reserve account. The size of the required reserve credits depends on the strength of the institution's reserve position. For institutions whose ratio of adjusted net worth (net worth minus 20 percent of scheduled items) to risk assets is better than 12 percent, there is no credit required. For institutions whose reserve position, as defined above, is between 8 and 12 percent, the requirement is to credit 10 percent of net income to Federal insurance reserve account. For institutions with a reserve position below 8 percent, the exact requirement depends upon the institution's size and the length of time insured. In this bracket, the regulation may require an institution to credit as much as the greater of 10 percent of net income or 6 percent of its growth in risk assets (which are, primarily, its mortgage loans).

The basic requirements are reduced in various ways in the first year of the new regulation in order to facilitate the transition from the previous regulation.

Institutions which fail to build up their reserves in accordance with the regulation may not, for a subsequent period, pay dividends in amounts greater than that approved by the Federal Savings and Loan Insurance Corporation.

Mr. MCMURRAY. Then, the results in California, 17 institutions went up to 5 percent in the last quarter of 1963. As a result of these 2 regulations 15 of those 17 institutions have reduced their dividend rate from 5 percent to 4.85 percent, which is the prevailing rate in southern California.

The two associations that did not and could not because they already had advertised their rate and once having advertised their rate, they could not do anything else but maintain it. However, they are not now advertising their rate. So the result of our regulation in California has been very good.

Around the country the rates have pretty much stabilized. In Miami, Fla., the rate went up for a number of associations one-eighth of 1 percent, and most other places around the United States, the rates have either stayed about the same or have gone down a little bit.

This has made it difficult for some associations, and they are writing to Members of Congress criticizing the Board for taking these steps.

But we feel, and the people who we believe are good operators are complimenting us, that we have done the savings and loan industry a real favor but more importantly we feel we have done for the public, whom we serve, only what we are supposed to do under our authority.

Mr. JONAS. That is your primary responsibility and you want to keep that in mind.

Mr. MCMURRAY. Yes, sir.

Mr. JONAS. I have no more general questions.

Mr. THOMAS. Do you have any?

Mr. SHIPLEY. No, sir.

DIVIDEND INCREASES

Mr. JONAS. What are you doing about continued increases in dividends? Are you undertaking to keep in close touch with that situation?

Mr. MCMURRAY. As I explained, the regulation discourages pretty much the increase in dividends but we have no power beyond that to do anything about dividends. There is a bill before the House Banking and Currency Committee which would give us standby authority on dividend ceilings, but that has not been acted on.

Mr. THOMAS. Following out Mr. Jonas' question, a lot of the associations throughout very many States were paying four and four and a half. Has there been a noticeable decrease in the rate of dividends since you tightened your regulations?

Mr. MCMURRAY. No, sir. The only thing that has happened is in California, where the rates from 5 percent have gone down, but what might very well have happened in California if we did not pass these regulations is that the rate of all southern California associations probably would have been at five and quite likely a number of them would have paid five and a quarter and if that happened, you would have had increases all over the country because of competition. For instance, you would probably have four and a half percent in Cleveland and four and a half percent in many places where they were only paying four and a quarter. This would have just aggravated the problem.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. MCMURRAY. Most of the associations in the country I think recognize the importance of maintaining their reserves, et cetera, and I would say 96 percent or something like that, over 95 percent of the associations are sound, well operated, efficient associations, doing a great good for the public.

The only ones we really have trouble with are the small minority that give us the headaches and sometimes cause us to take actions that are not necessary for the large majority of associations. I think we have the support of the good operators in what we are doing and we have the cooperation of the U.S. Savings & Loan League and the National League of Insured Savings Associations. They have cooperated with us and worked with us. There are differences of opinion, to be sure, but they have been cooperating and recognizing our problem.

REASON FOR GROWTH IN SAVINGS AND LOAN ASSOCIATIONS

Mr. THOMAS. This industry has mushroomed fast in the last 10 years. I do not know whether "mushroomed" is the correct word. It has grown very fast. Do you think a little of that growth has been through brokerage money or unsound practices, what ever you want to call it?

Mr. MCMURRAY. The brokerage money accounted for a small part of it, Mr. Chairman. I think, generally speaking, the growth in the savings and loan associations is due to their zeal—they have done a good job of selling thrift to the American public.

They really have done that.

Mr. THOMAS. These associations are not in business for charity and not for their health. They are in there to make a little money and do some good, too. The American system, I imagine, is first in their mind. I note again in your tables your State associations number about, roughly, 2 to 1 over the Federal. The Federal is about 1,957 and the other has a difference of about 2,500. The assets run from which one of your figures you want to use. The Federals, even twice as small, will run $56 billion as against in round figures $51 or $52 billion for the States.

Is your industry on good sound footing now?

Mr. MCMURRAY. Yes, sir.

STATUS OF EXAMINATIONS

Mr. THOMAS. What is your Insurance Corporation doing? We have always insisted that your examination—and that is out from under your Board, we realize that—but we have always thought it should be done once a year. When we first began to look at this matter, your predecessors were 2 years or two and a half years, Mr. Jonas——

Mr. JONAS. Fifteen months, I thought.

Mr. THOMAS. You are sure your States and your Federals are carefully examined once every 12 months now?

Mr. MCMURRAY. As a matter of fact, I have a specific statement on that. In the first half of the fiscal year, examinations were completed—this is a half year—for 2,129 institutions.

Mr. THOMAS. What States are not included in the examination under your system of examiners now?

Mr. MCMURRAY. What States?

Mr. THOMAS. Yes. What about Maryland?

Mr. MCMURRAY. Oh, yes. Any federally insured institution in any State comes under our supervision and examination. Sometimes it is done jointly with the State and sometimes not, but all insured associations are examined annually by our examiners.

Mr. THOMAS. You said insured?

Mr. MCMURRAY. Yes, sir.

ASSOCIATIONS NOT INSURED BY FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Mr. THOMAS. That is what I am talking about. What States are out from under your insurance system?

Mr. HORNE. All States are under our insurance system but there are some associations in each State that are State chartered that may not be under our insurance system.

Mr. THOMAS. I know all your Federals are. We are talking about your States.

Mr. MCMURRAY. There are associations in some States that are insured by private insurance companies.

Mr. THOMAS. Which one of those are not under your insurance system and your examination system?

Maryland was not.

Mr. HORNE. Some in Maryland were.

Mr. MCMURRAY. There are a number of State associations in Maryland that are not members of the Federal Savings and Loan Insurance Corporation.

Mr. THOMAS. Why weren't they? Why were some and why were some not?

Mr. MCMURRAY. Some of them, 2 or 3 years ago, operated in such a manner——

Mr. THOMAS. That you would not insure them?

Mr. MCMURRAY (continuing). That the Insurance Corporation would not take them.

Mr. THOMAS. Is that the answer?

Mr. MCMURRAY. Some of them probably never applied because they knew in advance they would not be insured.

Mr. THOMAS. My question is, "What States and what number of State institutions are not covered by your Insurance Corporation?"

Mr. MCMURRAY. Do we have it broken down by States? We have almost 2,000 associations, I think, whose combined assets are less than $5 billion anyway, that are not insured.

Mr. THOMAS. 2,000 out of the 6,400?

Mr. DELAITTRE. There are about 1,300 nonmember State-chartered savings and loan associations having assets of about one and a half billion.

Mr. THOMAS. That are not under insurance?

Mr. HORNE. Not under Federal insurance. Some of them will have a private or State insurance program of some kind.

Mr. THOMAS. I understand those fellows in Maryland had one, too.

Mr. DELAITTRE. I would like to amend that. It is two and a half billion of assets for those 1,300 associations.

Mr. THOMAS. What are you doing to bring those people under it? What can you do if they are chartered, not by the Federal law but by State law, what can you do?

Mr. MCMURRAY. The good associations apply and do get insured. We insure every year a great number of associations that are State-chartered but there are many of these other associations that are

very small institutions. They are the kind that operate maybe 2 nights a week. There are some institutions that might be very good, that just do not want Federal insurance. We can't tell. We don't go out and sell them.

Mr. THOMAS. You do not make any profit from them anyway, with this reserve you have; $850 million ought to be a couple of billion right now.

Mr. MCMURRAY. There are some associations, for example, in Ohio, that have State insurance and in Massachusetts the cooperative banks have a State insurance. There are a number of good associations that just do not want insurance. Then there are some that are not so good that, if they did apply, we would not insure them because their operations are such that they would not meet the conditions of the Federal Savings and Loan Insurance Corporation.

Mr. THOMAS. Do you have any questions?

Mr. SHIPLEY. I would like to ask one off the record.

(Discussion off the record.)

CONSERVATORSHIPS

Mr. THOMAS. How many foreclosures have been created in calendar year 1963 and what is your probable loss, if any?

Mr. MCMURRAY. You mean conservatorships?

Mr. THOMAS. Yes; what number?

Mr. MCMURRAY. We have taken over one Federal and we have issued four notices of termination.

Mr. THOMAS. In what States were they located? Insert the number and States.

Mr. MCMURRAY. All of them are in Illinois.

Mr. THOMAS. Any other States?

Mr. MCMURRAY. No, sir; all the other States are in reasonably good shape, although we have some problems here and there.

(Discussion held off the record.)

FINANCIAL DATA

Mr. THOMAS. This has been a very interesting and helpful discussion. We like talking over your problems with you. We think the Board and its very capable staff do a fine job.

We have watched you grow with great interest in the past 10 or 12 years.

Let us insert the statement of income and expenses.

Also insert 2 and 4, assets and liabilities.

(The pages follow:)

A. Statement of sources and application of funds

	1963 actual	1964 estimate	1965 estimate
FUNDS APPLIED			
To operations:			
Acquisition of assets: furniture, fixtures, and equipment	$110,979	$85,000	$45,500
Expense:			
Administrative expense, excluding depreciation	2,012,679	2,506,500	3,926,000
Nonadministrative expense, excluding depreciation:			
Cost of examining savings and loan associations	10,607,232	11,911,500	12,632,000
Cost of supervising savings and loan associations	561,079	696,500	792,500
Conservatorship, supervisory representative in charge, and other expenses	148,486	200,000	200,000
Credit allowed on prior years' assessments			300,000
Total applied to operations	13,440,455	15,399,500	17,896,000
To financing: increase in Treasury cash	119,413	65,911	28,327
Total funds applied	13,559,868	15,465,411	17,924,327
FUNDS PROVIDED			
By operations:			
Income	13,433,178	15,454,004	17,741,475
Decrease in selected working capital	126,690	11,407	182,852
Total provided by operations	13,559,868	15,465,411	17,924,327
BUDGET EXPENDITURES			
Funds applied to operations	13,440,455	15,399,500	17,896,000
Funds provided by operations	13,559,868	15,465,411	17,924,327
Net budget expenditures	−119,413	−65,911	−28,327
The above are credited (−) to net receipts of fund	−119,413	−65,911	−28,327

B. Statement of income and expense

	1963 actual	1964 estimate	1965 estimate
Income:			
Examining fees and charges	$10,512,023	$11,997,504	$12,795,975
Assessments for services and facilities:			
Federal Savings and Loan Insurance Corporation	1,097,347	1,351,480	2,570,325
Federal home loan banks	1,323,825	1,539,520	1,820,425
Office of Examinations and Supervision	197,412	243,000	291,750
Reimbursements from other accounts	113,496	122,500	63,000
Conservatorship, supervisory representative in charge, and other income	180,973	200,000	200,000
Miscellaneous	8,102		
Total income	13,433,178	15,454,004	17,741,475
Expense:			
Administrative expense:			
Reimbursable expense	101,076	122,500	63,000
Nonreimbursable expense, excluding depreciation	1,911,603	2,384,000	3,863,000
Subtotal	2,012,679	2,506,500	3,926,000
Depreciation on administrative facilities	62,516	46,000	27,000
Total administrative expense	2,075,195	2,552,500	3,953,000
Cost of examining savings and loan associations:			
Reimbursable expense	12,420		
Nonreimbursable expense, excluding depreciation	10,594,812	11,911,500	12,632,000
Subtotal	10,607,232	11,911,500	12,632,000
Depreciation on nonadministrative facilities	38,868	31,500	18,500
Cost of examining savings and loan associations	10,646,100	11,943,000	12,650,500
Cost of supervising savings and loan associations:			
Reimbursable expense			
Nonreimbursable expense, excluding depreciation	561,079	696,500	792,500
Subtotal	561,079	696,500	792,500
Depreciation on nonadministrative facilities	9,595	7,500	
Cost of supervisings savings and loan associations	570,674	704,000	792,500
Conservatorship, supervisory representative in charge, other expense	148,486	200,000	200,000
Total expense	13,440,455	15,399,500	17,596,000
Assessments and fees in excess of expense	−7,277	54,504	145,475
ANALYSIS OF DEFERRED AND UNDISTRIBUTED CREDITS			
Deferred and undistributed credits, beginning of year	423,588	416,311	470,815
Credit allowed Federal home loan banks on prior years' assessments			−300,000
Deferred and undistributed credits, end of year	416,311	470,815	316,290

C. Statement of financial condition

	1962 actual	1963 actual	1964 estimate	1965 estimate
ASSETS				
Cash with Treasury	$641,081	$760,494	$826,405	$854,732
Accounts receivable	2,289,950	1,592,999	1,799,375	1,859,275
Inventory: supplies	15,023	12,575	13,800	13,190
Other: postage meter	3,794	2,423	2,100	2,775
Furniture, fixtures, and equipment	455,799	561,435	646,435	691,435
Less portion charged off as depreciation	455,799	561,435	646,435	691,435
Furniture, fixtures and equipment, net				
Total assets	2,949,848	2,368,491	2,641,680	2,729,972
LIABILITIES				
Current liabilities	2,526,260	1,952,180	2,170,865	2,413,682
Deferred and undistributed credits	423,588	416,311	470,815	316,290
Total liabilities	2,949,848	2,368,491	2,641,680	2,729,972

Mr. THOMAS. You have not gone up on the per diem, Mr. Director, but it shows you are doing more business. It must be in the form of more associations coming in. I imagine this is purely examining fees.

Assessments for services and facilities, and under that you have Federal Savings and Loan Insurance Corporations.

What is this figure of $2.5 million?

Mr. CORCORAN. That is the portion of the Board's expenses that the Insurance Corporation bears.

Mr. THOMAS. You have a total expense this year of $17,596,000, against $15,399,000. You go up a little bit.

In 1963 you show $13.4 million and you go up to $15 million.

Do you ever have a little surplus? How do you always come out on the nose?

Mr. CORCORAN. If you look down below the total expense line, assessments and fees in excess of expense——

Mr. THOMAS. That is some of the finest calculating I have ever seen.

The point is that these are assessments, no appropriated funds. These are all fees.

What consideration are you giving to hiking back that insurance fee? You are on thin ground, are you not?

Mr. MCMURRAY. As a matter of fact, Mr. Chairman, the law that you passed a year and a half ago which authorizes the associations to prepay additional premiums equal to 2 percent of the increase in savings has greatly accelerated the income of the Insurance Corporation.

Mr. THOMAS. It is still less than $900 million.

Mr. MCMURRAY. It is on its way to $1 billion now.

RESERVES OF FEDERAL SAVINGS AND LOAN CORPORATION

Mr. THOMAS. Turn to page 135, gentlemen.

Insert this page.

(The page referred to follows:)

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Reserves.—The following table shows the reserves accumulated by all insured institutions as well as by the Insurance Corporation by fiscal years:

[In millions]

	All insured institutions	FS&LIC	
		Primary	Secondary
At June 30:			
1946	$425	$67.3	
1950	844	88.2	
1955	2,037	170.7	
1960	4,307	354.0	
1961	4,934	410.0	
1962	5,660	471.0	$168.0
1963	6,440	543.3	359.1
1964 [1]	7,320	630.3	577.3
1965 [1]	8,300	730.0	818.6

[1] Estimate.

The reserves and undivided profits of insured institutions aggregated $6.4 billion at June 30, 1963, an increase of 13.8 percent over the figure at June 30, 1962. It is expected to reach $8.3 billion by June 30, 1965, an increase of 28.9 perncent in the 2-year period.

The Corporation's reserve for insurance losses was $902.4 million at June 30, 1963. The basic law required the Corporation to build up a reserve until it was equal to 5 percent of all insured accounts plus all creditor obligations of all insured institutions. The enactment of Public Law 87-210, approved September 8, 1961, revised the reserve requirements. This law, effective January 1, 1962, requires each insured institution to pay to the Corporation annually an additional premium in the nature of a prepayment at a rate equal to 2 percent of the increase in savings for the previous calendar year less an amount equal to any requirement for the purchase of Federal home loan bank stock during such period. The law further requires the Corporation to establish a primary reserve, which shall be the general reserve of the Corporation, and a secondary reserve to which shall be credited the amounts of the prepayments made by the insured institutions.

Mr. THOMAS. You have $6,440 million in reserves in all insured institutions.

Mr. CORCORAN. That is right, sir.

Mr. THOMAS. You have less than $900 million.

Mr. MCMURRAY. That is as of June 1963. It is around $900 million.

Mr. HUSBAND. It will be about $1,225 million by June of 1964.

Mr. THOMAS. When I try to figure out how much money you have and how much insurance you have I am confused. I come up with combined resources, June 30, 1963, $101 billion.

Same page, December 31, 1963, $110 billion.

Page 30, assets, December 31, 1963, $107 billion.

Then going to page 135 under the table for the reserves, June 30, 1963, $8.3 billion.

How can figures vary like that in a period of 6 months?

Mr. CORCORAN. In one case the figures refer to insured institutions and in the other case to bank system membership.

Mr. MCMURRAY. When you talk about the assets of all savings and loan institutions——

Mr. THOMAS. The figure under the reserves, then, excludes those 1,900 where you do not have any insurance?

Mr. CORCORAN. That is right, sir.

BANK SYSTEM MEMBERSHIP

Mr. DELATTRE. There are 6,300 savings and loan associations in the country. Of those, approximately 5,000 are members of the Federal Home Loan Bank System, but only 4,400 of them are insured.

Mr. THOMAS. You mean you let them get into the system without taking the insurance?

Mr. MCMURRAY. They can become members of the bank——

Mr. THOMAS. Is that by law or regulation?

Mr. MCMURRAY. This is permitted by law.

Mr. THOMAS. They can enjoy your assets but do not protect their depositors? They can borrow money from the 11 big banks but when it comes to taking care of the depositors—you know that does not jibe. Why should that be?

Mr. MCMURRAY. Take the cooperative banks in Massachusetts, for example. They have their own insurance. I suppose in recognition of States rights they were allowed to come in on that basis.

Mr. THOMAS. We are not talking about States rights but protection for the depositors.

Mr. MCMURRAY. The home loan bank at the time they were admitted I suppose thought, and so far as I know now, they are in sound condition, and the insurance is sufficiently good that we have no concern about it——

Mr. THOMAS. You should throw out all your insurance for those in sound condition, then, and excuse them.

This is a defect that should be cured.

They can go to the 11 big banks, borrow money from them, and use it in any way you see fit, but when it comes——

Mr. MCMURRAY. You cannot use it any way you see fit.

Mr. JONAS. One problem I see in view of these statistics you have now recited is this: The general public, the man on the street, I would say 999 out of 1,000 think all savings and loans are insured.

Mr. MCMURRAY. That is right.

Mr. THOMAS. That is what the folks in Maryland thought, too.

Mr. MCMURRAY. That is right.

Mr. JONAS. If he is a member of your system you should have him put out a sign saying he is not insured.

Mr. HORNE. If the public had better education on this it would help. If they have Federal insurance the sign is put in the window. If they do not have the sign then you know it is not insured by Federal insurance. It might be insured by private or State but not Federal.

Mr. THOMAS. You show cash with Treasury, $760,000?

Mr. CORCORAN. That is right, sir.

Mr. THOMAS. When did you pay all this back?

Mr. CORCORAN. July of 1951.

Mr. THOMAS. It has been over 10 years ago?

Mr. CORCORAN. That is right, sir.

Mr. THOMAS. This is all good information. Insert pages 5, 6, 7, and 10.

(The pages follow:)

Program highlights

[Dollars in millions]

Federal Home Loan Bank System	1963 actual	1964 estimate	1965 estimate
Members (June 30):			
Number	4,971	5,090	5,225
Assets	$100,800	$117,700	$133,600
Savings (shares)	$86,800	$101,300	$114,900
Mortgage loans	$84,700	$98,700	$112,100
Insured	4,386	4,512	4,645
Regional banks: Advances outstanding	$3,270	$4,500	$4,400

OUTLINE OF FUNCTIONS

The three agencies under the Federal Home Loan Bank Board—the Federal Home Loan Bank System, the system of the Federal savings and loan associations, and the Federal Savings and Loan Insurance Corporation—were created to serve the American public through the media of savings and loan associations, cooperative banks, and other financial institutions engaged in the encouragement of thrift and economical homeownership. They were established by Congress in the 1932–34 depression period, when these savings institutions—basic components of the Nation's financial structure—needed additional supports sponsored by the Federal Government on a permanent basis.

For the protection of the homeseeker and the small saver and investor, the Federal Home Loan Bank Board carries out three primary obligations, through the following activities which it directs or supervises.

Federal Home Loan Bank System

The Federal Home Loan Bank System, through its 11 regional Federal home loan banks, strategically located throughout the country, provides a permanent system of Reserve banks for eligible thrift institutions of the savings and loan type. The Federal home loan banks advance funds to these members institutions to meet withdrawal demands as well as seasonal and expansionary needs for additional home-mortgage funds. Through the use of interbank deposits, the System maintains an adequate flow of home loan funds into every locality. October 15, 1963, marked the 31st anniversary of the opening of the regional banks.

The regional banks, the stock of which is owned by their member institutions, do not deal directly with individuals. The great majority of the members are savings and loan associations, also known sectionally as building and loan associations, cooperative banks, and homestead associations. Included also in the membership of the Federal Home Loan Bank System are 37 mutual savings banks.

The importance of the Federal Home Loan Bank System is indicated by the fact that at June 30, 1963, the combined resources of its member institutions totaled almost $101 billion (the December 31, 1963, figure is estimated at over $110 billion). In fiscal year 1963 its savings and loan members made home loans amounting to over $22.2 billion; for calendar year 1963 the figure is estimated at over $24.9 billion.

Located in most cities, suburban areas, and towns throughout the United States, the System's member institutions serve nearly 44 million people including savers, investors, and home-loan borrowers.

Federal savings and loan associations

The creation of Federal associations was authorized by Congress in 1933 to provide additional local thrift institutions for people to place their savings and/or obtain loans to finance their homes. In their charter and form of organization, Federal associations embody the most modern practices developed by sav-

ings and home-financing institutions during their 132-year history in this country.

All Federal savings and loan associations are required to be members of the Federal Home Loan Bank System and to carry insurance of their savings or share accounts through the Federal Savings and Loan Insurance Corporation.

At June 30, 1963, there were 1,957 privately owned, local, mutual institutions operating under charter, examination, and supervision by the Federal Home Loan Bank Board. Included among these are institutions newly organized by local citizens since 1933 and those already established which elected to transfer from State to Federal charter. Their combined resources at June 30, 1963 were $52.9 billion. Federal savings and loan associations are in operation in every State, in the District of Columbia, and Puerto Rico.

Federal Savings and Loan Insurance Corporation

Created in 1934, the Federal Savings and Loan Insurance Corporation insures, up to 10,000 each, savings or share accounts in approved savings and loan associations and similar institutions. Insurance of savings has been an important factor in stimulating the flow of savings into thrift and home-financing institutions. These savings are used largely for the financing of homes. The number of insured institutions at June 30, 1963, was 4,386; their combined assets were $96.2 billion.

All insured institutions are members of the Federal Home Loan Bank System.

Summary

The budget programs of the Federal Home Loan Bank Board including the Federal Savings and Loan Insurance Corporation are presented as business-type budgets.

The budget estimates for 1965, the revised estimates for the current fiscal year, and actual expenses for fiscal 1963 are summarized in the following two tables:

Comparative summary of positions and man-years

Unit	1963 actual		1964 estimate		1965 estimate	
	Positions	Man-years	Positions	Man-years	Positions	Man-years
Board and staff offices	210	184.8	238	213.4	343	335.0
Federal Savings and Loan Insurance Corporation	116	105.3	126	116.8	16	16.0
Office of Examinations and Supervision	994	903.6	1,000	953.6	1,000	979.1
Total	1,320	1,193.7	1,364	1,283.8	1,359	1,330.1

Comparative summary of expenses

Unit	1963 actual	1964 estimate	1965 estimate
Administrative expenses:			
Board and staff offices	$1,974,119	$2,430,000	$3,890,000
Federal Savings and Loan Insurance Corporation	1,139,796	1,315,000	225,000
Total	3,113,915	3,745,000	4,115,000
Nonadministrative expenses: Office of Examinations and Supervision	11,204,354	12,647,000	13,443,000
Grand total	14,318,269	16,392,000	17,558,000

BOARD AND STAFF OFFICES

Mr. THOMAS. Board and staff offices is shown on page 11.

The table on page 10 is very interesting. You show a reduction in jobs for 1965, 1,359 against 1,364. Your operating costs are up $1 million and $1,200,000. How do you account for that?

Mr. CORCORAN. Mr. Chairman——

Mr. THOMAS. Then you transfer from the Insurance Corporation some 90 to 95 jobs to the Board and you lose 5 in the shuffle but your overall bill still is up. Why is that?

Mr. CORCORAN. The difference between 1964 and 1965 in the Board is for these reasons: The comparison is with the figure for the Board and staff offices as approved for 1964.

Mr. THOMAS. I understand that. I do not find that subtraction, though. You have an addition but I don't find the subtraction. On the other hand the overall figure is up over $1 million.

Mr. CORCORAN. There is $778,000 for positions transferred from the Insurance Corporation.

Mr. THOMAS. I understand that.

Mr. CORCORAN. $158,000 for annualization of new and vacant positions. This fiscal year we could not fill any new positions before the first of January; in 1965 these are filled for the full year.

Mr. THOMAS. How many jobs?

Mr. CORCORAN. Thirty new jobs in the Board and staff offices.

Mr. THOMAS. You show a minus five in the table.

Mr. MCMURRAY. Jobs filled.

Mr. CORCORAN. Between this year and next year.

Mr. THOMAS. Can you operate with the same money you had last year?

Mr. MCMURRAY. No, sir. We have the pay increases.

Mr. THOMAS. That was absorbed last year.

Mr. CORCORAN. The second phase of the pay increase; it started the first of January of this year.

Mr. THOMAS. What does it cost this year?

Mr. CORCORAN. The amount is $44,000.

Mr. THOMAS. You have an increase of $1.3 million here.

Mr. CORCORAN. $1,019,000 in personnel compensation.

SUPERGRADES

Mr. THOMAS. How many supergrades do you have?

The green sheets have been inserted at the proper place. Rather than taking them one at a time, what does it look like overall? How many supergrades do you have? How many 15, 16, and 17 grades do you have?

Mr. CORCORAN. For 1965 we have 30 15's; grade 16 we have 4; grade 17 we have 1, and in grade 18 we have 1.

Mr. THOMAS. That is in the Board?

Mr. CORCORAN. Yes, sir. In Examinations and Supervision we have 19 in grade 15; 1 in grade 16; 2 in grade 17; 1 in grade 18.

Mr. THOMAS. How many 15, 16, 17, and 18?

Mr. CORCORAN. In the Insurance Corporation we have three 15's and one 17.

Mr. THOMAS. And two 16's?

Mr. CORCORAN. No 16's.

PURPOSE OF REORGANIZATION

Mr. THOMAS. What was the object of the reorganization? What does it actually do?

Mr. McMURRAY. What we did was put like functions together. We put the two controllers' offices together, Insurance Corporation and Board controllers. We put the Underwriting Division, and the division doing the same kind of work in the Board, together. We also put the Operating Analysis Division, which was under the Insurance Corporation, back——

Mr. THOMAS. You save only five jobs, though.

Mr. McMURRAY. That is right, but ordinarily you must remember, Mr. Chairman, the assets of the associations which we supervise increased by 15 percent last year and every year previously this Board came in and asked for extra positions, so this is the first time we have not asked that.

Mr. THOMAS. There is an increase of 15 percent. I was looking at that loss in the Insurance Corporation. That is more than 15 percent, too.

Mr. McMURRAY. What was the 15 percent?

Mr. THOMAS. Loss in the Insurance Corporation.

Mr. McMURRAY. That is right.

UNINSURED INSTITUTIONS

Mr. THOMAS. You speak of insurance up to $10,000 each. The Commissioner told us there are about 1,300 which do not have a nickel's worth of insurance so far as the Federal Insurance Corporation is concerned.

Mr. McMURRAY. That is right.

Mr. THOMAS. I imagine they claim they have some of that Maryland insurance?

Mr. McMURRAY. I don't think too many of them make that claim.

Mr. THOMAS. What is the total number of institutions you have, Mr. Director?

Mr. McMURRAY. Insured and not insured?

Mr. THOMAS. Yes.

Mr. McMURRAY. Over 6,300, Mr. Chairman.

Mr. THOMAS. That is more than 1,300 not insured, then.

Mr. McMURRAY. Thirty percent are not insured.

Mr. THOMAS. 1,905 not insured?

Mr. CORCORAN. That is right, sir.

Mr. DELATTRE. Some are insured by State organization, sir. That is so in three States.

BOARD AND STAFF OFFICES

Mr. THOMAS. The 11 banks were created 30 years ago. What are the assets of the 11 big banks?

Mr. CORCORAN. As of June 30, 1963, $5,385 million.

Mr. THOMAS. Let us insert pages 11 and 12 in the record.

(The pages follow:)

BOARD AND STAFF OFFICES

The 1965 estimates of administrative expenses of the board and staff offices, the revised estimates for the current fiscal year, and actual expenses for 1963 are summarized in the following table:

Description	1963 actual	1964 estimate	1965 estimate
Positions	210.0	238.0	343.0
Man-years	184.8	213.4	335.0
Personnel compensation	$1,522,401	$2,630,000	$2,905,000
Personnel benefits	107,498	195,500	217,000
Total personal services and benefits	1,629,899	2,825,500	3,122,000
Contractual services and supplies	379,376	729,800	804,000
Acquisition of capital assets	65,920	46,000	27,000
Total gross expenses	2,075,195	3,601,300	3,953,000
Less reimbursements	101,076	122,500	63,000
Total expenses	1,974,119	3,478,800	3,890,000
Comparability figures—Federal Savings and Loan Insurance Corporation	0	1,048,800	0
Actual, authorization, and estimate	1,974,119	2,430,000	3,890,000

As shown, the Federal Home Loan Bank Board requests authority to expend up to $3,890,000 for administrative expenses of the Board and its staff offices in fiscal 1965.

On a comparable basis, the estimates reflect a decrease of 2 in positions, an increase of 21.2 in man-years, and an increase in funds of $411,200 when compared with the estimated expenses for the current fiscal year; in percentage terms, there is an increase of 6.7 percent in man-years and 11.8 percent in funds.

Of the increase in funds, $275,000 is in personnel compensation, $21,500 in personnel benefits, $74,200 in contractual services and supplies, less $19,000 in acquisition of capital assets, and a decrease of $59,500 in reimbursements.

Personal services and benefits.—The increase in man-years represents delay in filling, in the current fiscal year, some of the positions authorized for the current fiscal year.

All other expenses.—The major portion of the increase of $114,700 in all other expenses is in the items of travel and transportation of persons, $7,000; rent, communications, and utilities, $143,500; printing and reproduction, $15,500; other services, $13,500; supplies and materials, $6,000; reimbursements, $59,500; there is a decrease in services of other agencies of $111,300, and in equipment of $19,000. Review and analyses of all the items included in all other expenses together with justification of the need for the increases will be found beginning on page 84.

Reimbursements.—A table showing reimbursements to the Board for services rendered, for the 3 years included in the budget, will be found on page 94.

Sources of funds

The funds used to pay the administrative expenses of the Board are derived from the following sources:

Source	1963 actual	1964 estimate	1965 estimate
By assessments upon—			
Federal home loan banks	$947,577	$1,166,400	$1,400,400
Federal Savings and Loan Insurance Corporation	829,130	1,020,600	[1] 2,197,850
Office of Examinations and Supervision (FHLBB)	197,412	243,000	291,750
Total funds	1,974,119	2,430,000	3,890,000

[1] Under the old basis—before Board reorganization—the Insurance Corportaion would have paid $2,559,720 composed of $1,161,720 representing assessment of 42 percent of the Board's expenses, and its own administrative expenses of $1,398,000. Under the new basis the Corporation saves $136,870.

Mr. THOMAS. What is the big item of expense in the Board outside of the Examining Division?

Mr. CORCORAN. Rent and utilities in the Board proper.

Mr. THOMAS. How many employees in the Board proper?

Mr. CORCORAN. 238 this year and 343 in 1965.

Mr. THOMAS. 238 against 343?

Mr. CORCORAN. That is right, sir.

ASSETS OF THE FEDERAL HOME LOAN BANKS

Mr. THOMAS. Which is the largest of the 11 banks?

Mr. MCMURRAY. San Francisco.

Mr. THOMAS. Do you have the assets of each of the banks?

Mr. MCMURRAY. Yes, we have the combined assets.

Mr. THOMAS. Is it in the record?

Mr. CORCORAN. No, sir; not separately.

Mr. THOMAS. Put it in the record for the last 5 years.

(The information requested follows:)

Federal home loan banks assets as of Dec. 31, 1959–63

[In millions of dollars]

	1959	1960	1961	1962	1963
Boston	123.4	142.4	188.5	210.2	309.0
New York	284.8	303.9	310.1	341.8	471.9
Pittsburgh	241.8	233.0	287.2	366.5	395.2
Greensboro	425.1	511.2	547.5	649.1	787.5
Cincinnati	225.2	241.9	285.0	340.1	387.9
Indianapolis	176.1	188.4	213.7	228.5	256.4
Chicago	498.7	492.7	516.4	730.8	886.7
Des Moines	203.5	197.0	199.8	295.2	411.5
Little Rock	136.5	135.3	158.8	286.7	389.9
Topeka	99.4	111.1	148.5	244.7	276.8
San Francisco	929.2	834.8	1,210.0	1,525.4	2,324.8
Consolidated	3,342.5	3,315.7	3,988.4	5,203.9	6,874.6

Mr. MCMURRAY. We split the San Francisco Bank into two banks.

Mr. THOMAS. Did you put a branch down in Los Angeles?

Mr. MCMURRAY. We left the San Francisco Bank. There were 13 States belonging to it. We put the new bank at Spokane, Wash.

Mr. THOMAS. I remember that.

Mr. MCMURRAY. San Francisco still will be the biggest bank, nevertheless.

Mr. THOMAS. What are its assets?

Mr. MCMURRAY. We will have that information available; we are to furnish it for the record.

OFFICE OF EXAMINATIONS AND SUPERVISIONS

Mr. THOMAS. Let us insert pages 96, 97, 98, and 100 in the record.

(The pages follow:)

PROGRAM HIGHLIGHTS

The Division of Examinations under the general direction of the Director of the Office conducts regular periodic and special supervisory examinations of all Federal savings and loan associations, of insured State-chartered savings and loan associations, other institutions of the savings and loan type insured by the Federal

Savings and Loan Insurance Corporation, and of noninsured member institutions of the Federal Home Loan Bank System not subject to State supervision. The Division also examines and analyzes the financial condition of institutions which apply for membership in the System, for insurance of accounts, or for conversion from a State to a Federal charter. The institutions examined bear the costs of examination, and the fees charged therefor are calculated to defray all of the operating expenses of the Division.

The Division of Supervision under the general direction of the Director of the Office is responsible for the supervision of institutions insured by the Federal Savings and Loan Insurance Corporation. The purpose of such supervision is to prevent the development and continuance of unsafe and unsound financial practices in these institutions and the correction of such practices where found. In carrying out the supervisory function, the Division reviews and analyzes the examination reports prepared by the Division of Examinations.

The following table reflects the work of the Office:

[Dollars in millions]

Description	1963 actual	1964 estimate	1965 estimate
Examinations completed or to be completed	4,500	4,640	4,674
Average assets of insured institutions (start of year)	$19.5	$21.9	$24.3
Average volume new loans made by insured institutions during year	$5.0	$5.3	$5.4

INTRODUCTION

The budget estimate of the Office for fiscal 1965 totals $13,443,000. The estimate reflects no increase in positions but an increase in man-years of 25.5 and an increase in funds of $796,000 when compared with the estimated expenses for the current fiscal year. In percentage terms there is an increase of 2.7 percent in man-years and 6.3 percent in funds.

Of the increase in funds $623,800 is in personnel compensation, $50,700 is in personnel benefits, $142,000 is in contractual services and supplies; there is a reduction of $20,500 in acquisition of capital assets.

The estimate is based on the assumption that the current rate of growth in the number and size of insured institutions will continue through fiscal 1965; it is also based on the need to maintain examining and supervisory schedules in a current status.

The examining and supervisory programs are designed to protect the financial risk and interests of the Federal Savings and Loan Insurance Corporation, thus carrying out some of the statutory responsibilities vested in the Federal Home Loan Bank Board. Such responsibilities at June 30, 1963, involved 4,386 insured institutions with aggregate assets of $96.2 billion and with reserves and undivided profits of $6.4 billion. The potential liability of the Insurance Corporation at June 30, 1963, was $83.0 billion; it guaranteed financial protection of their savings to more than 33.3 million savers who carried their savings in insured institutions of the savings and loan type.

FUNCTIONS AND RESPONSIBILITIES, OFFICE OF THE DIRECTOR

Under the general direction of the Chairman, Federal Home Loan Bank Board and/or the Federal Home Loan Bank Board, the Office carries out the Board's responsibilities for—

(1) The examination of the financial condition, operations, policies, and practices of all insured Federal or State-chartered savings and loan associations, as well as of uninsured member institutions at the request of a Federal home loan bank, insured institutions for which a conservator has been appointed, and any institution of which the Federal Savings and Loan Insurance Corporation has been appointed receiver; and

(2) The supervision of all Federal savings and loan associations and of all insured State-chartered savings and loan associations for the purpose of assuring compliance with applicable laws and regulations and of preventing the development and continuance of unsafe and unsound financial practices, and to effect correction of such practices when detected.

It formulates and recommends to the Board, and advises the Board regarding new or revised policies and procedures and such amendments of statutes and regulations as are made necessary or desirable by experience, public interest, the welfare of the business, or changing conditions; it carries out the Board's decisions and actions on such matters with and through the staff of the Office, the supervisory agents, and other officers of the Board.

It recommends to the Board that insurance of accounts of an insured institution be terminated or that the institution be ordered to show cause why insurance should not be terminated, whenever it is believed the facts warrant such action.

It recommends to the Board whether institutions found to be impaired or close to impairment, should be liquidated or assisted or made whole by a contribution or purchase of assets and, if the latter, the amount of the contribution or purchase, the terms and conditions, and requirements as to future management and policies.

FUNCTIONS AND RESPONSIBILITIES, DIVISION OF EXAMINATIONS

The Division under the general direction of the Director of the Office conducts regular periodic and special supervisory examinations of all Federal savings and loan associations and those State-chartered savings and loan associations, homestead associations, and cooperative banks, the savings or share accounts of which are insured by the Federal Savings and Loan Insurance Corporation.

Noninsured member institutions of the Federal Home Loan Bank System are examined by the Division if they are not subject to State examination and supervision or have not been examined by the State authorities.

The Division also examines applicant savings and home-financing institutions to determine their eligibility for membership in the Bank System, insurance of savings or share accounts, or conversion from State to Federal charter.

Public Law 895, approved July 3, 1948 (62 Stat. 1239), considers all necessary expenses of the Division of Examinations, in connection with the making of examinations, nonadministrative.

Growth of institutions subject to examination.—The combined assets of insured institutions increased in record volume during fiscal 1963, and reached the approximate total of $96.2 billion on June 30, 1963. The continuing growth in the fiscal years since 1960 is shown below:

[Dollars in billions]

Fiscal year	Assets	Amount and rate of increase					
		Last year		Last 3 years		Last 5 years	
		Amounts	Percent	Amount	Percent	Amount	Percent
1965 [1]	$124.2	$14.4	13.1	$40.8	48.9	$61.0	96.5
1964 [1]	109.8	13.6	14.1	37.3	51.4	54.0	96.8
1963	96.2	12.8	15.3	33.0	52.2	48.6	102.1
1962	83.4	10.9	15.0	27.6	49.5	41.3	98.1
1961	72.5	9.3	14.7	24.9	52.3	35.6	96.5
1960	63.2	7.4	13.2	21.1	50.1	31.6	100.0

[1] Estimated.

The average size of insured institutions as of June 30, 1963, was $21.9 million, an increase of $2.4 million (12.3 percent) during fiscal 1963, and an increase of $9.5 million (76.6 percent) during the past 5 years.

Mr. THOMAS. All of your State-chartered institutions are not enjoying your supervision?

Mr. MCMURRAY. That is right.

Mr. THOMAS. You are sure each of them in the system is examined?

Mr MCMURRAY. Yes, sir; those that are insured.

Mr. THOMAS. Once a year?

Mr. MCMURRAY. Yes, sir.

Mr. THOMAS. Examinations completed or to be completed—what do you mean "or to be completed"?

Mr. CORCORAN. That is for the 3 years, Mr. Chairman. In 1963 they have been completed.

NEW INSURED MEMBERS

Mr. THOMAS. How many associations will be brought into the system, State and Federal?

Mr. MCMURRAY. This year?

Mr. THOMAS. Yes.

Mr. MCMURRAY. About 125.

Mr. THOMAS. It has been averaging between 100 and 115 a year?

Mr. MCMURRAY. That is right.

Mr. THOMAS. Do you see an end to that growth?

Mr. MCMURRAY. I think that increase will continue for some time.

PROCESSING OF APPLICATIONS

Mr. THOMAS. How many applications for insurance do you have pending now, either State or Federal?

Mr. MCMURRAY. We have that information. My recollection is that it runs in the neighborhood of 60 to 80.

Mr. THOMAS. Out of that the past performance has been to grant anywhere from 100 to 115 a year?

Mr. MCMURRAY. That is right.

Mr. THOMAS. What is the length of time required to process one of the applicant's charters?

Mr. MCMURRAY. From the first day the application is made in the local bank——

Mr. THOMAS. What do you mean "made in the local bank"? You mean the people back in the district file it with their local bank?

Mr. MCMURRAY. That is right.

Mr. THOMAS. How long does it take the big bank to do its study and make recommendations?

Mr. MCMURRAY. I would say generally it takes about 30 to 50 days in the district bank.

Then it comes up here and takes about 6 weeks to 2 months generally.

Mr. THOMAS. What part of the time of the staff of the big district banks is consumed in processing new applications?

Mr. MCMURRAY. It would vary with the bank. For example, in the Greensboro Bank, where you have Florida and the Southern States of the east coast, you get many applications for new charters and branches.

On the other hand, in some of the banks, as in Cincinnati, you would not have very much business at all.

Mr. THOMAS. Why is that?

Mr. MCMURRAY. First of all, the area is not a growing area, more of a stable area populationwise.

Secondly, they have a fair number of associations which already exist in those States.

Mr. THOMAS. What time did you say was required? Thirty days in the district banks? How much time at headquarters?

Mr. McMURRAY. It varies with the application. Roughly from 30 to 50 days in the bank, depending on the kind of an application it is, and the problems involved, and probably with an average of 40 to 45 days. Then it comes to us and——

Mr. THOMAS. Does the organization here go over the same detail that the district bank does?

Mr. McMURRAY. We analyze whatever is received. In many cases there is an independent check made in the area of the information received. Then it is given legal clearance.

Mr. THOMAS. What percentage of the applications is it that you disagree with?

Mr. McMURRAY. It is quite frequently that we disagree with the bank. I don't know the percentage. There again some of the banks send in a great number, and where there is a great number I suppose there is more information with which we do not agree.

With the banks that send in very little there is more likely to be agreement.

Mr. THOMAS. The bottom line on page 96 is interesting. "Average volume new loans made." It runs about $5 million a year in new loans. That is a healthy growth rate; is it not?

Mr. McMURRAY. Yes, sir.

Mr. THOMAS. What is the total employment in the Examinations Division now?

Mr. CORCORAN. We show on January 18, 1964, Division of Examinations and Supervision, 911. Examiners were 747.

EXAMINATION WORKLOAD

Mr. THOMAS. Insert page 104 in the record at this point.
(The page follows:)

Examination workload

	Actual, 1963	Estimate, 1964	Estimate, 1965
Federal associations:			
Number of associations	1,922	1,957	1,994
New associations and additional examinations	110	100	63
Total examinations to be made	2,032	2,057	2,057
Examinations made	2,003	2,057	2,057
Examinations not made	29	0	0
Insured State associations:			
Number of associations	2,345	2,429	2,518
New associations and additional examinations	98	100	45
Total examinations to be made	2,443	2,529	2,563
Examinations made	2,321	2,529	2,563
Examinations not made	122	0	0
Eligibility	54	54	54
Federal associations:			
Examinations made	2,003	2,057	2,057
Average man-days per examination	49.5	50.0	50.0
Total man-days required	99,149	102,850	102,850
Insured State associations:			
Examinations made	2,321	2,529	2,563
Average man-days per examination	25.4	26.0	26.0
Total man-days required	58,953	65,754	66,638
Eligibility:			
Examinations made	54	54	54
Average man-days per examination	21.2	21.2	21.2
Total man-days required	1,145	1,145	1,145
Man-days required for:			
Federal associations	99,149	102,850	102,850
Insured State associations	58,953	65,754	66,638
Eligibility	1,145	1,145	1,145
Subtotals	159,247	169,749	170,633
Net work in process—current year	−3,608		
Total man-days required	155,639	169,749	170,633
Examiner working days each year	209	212	213
Personnel required:			
Examining personnel	745	801	801
Less: chief examiners	12	12	12
Field examiners	[1] 733	789	789

[1] Does not include 11 man-years used in "special examinations."

Mr. THOMAS. You show 12 chief examiners here. The total is about 789. Those are the field examiners. The total is about 801; is it not?

Do you have any more than this? Are the chief examiners all the supervision you have?

Mr. MCMURRAY. No, sir.

Mr. THOMAS. This adds up to 801. What is the total? Is it 900? Did you use the figure of 900 last year?

Mr. MCMURRAY. Yes, sir, about 900. The clerical staff and district office staffs run close to 95. These are only the technical groups here.

Mr. THOMAS. They are officed at the 11 big banks?

Mr. MCMURRAY. That is right.

Mr. THOMAS. Let us insert page 112 in the record.

(The page follows:)

Office of Examinations and Supervision

Comparative summary of nonadministrative expenses, fiscal years 1963, 1964, and 1965

	1963 actual			1964 estimate			1965 estimate		
	Gross positions	Net man-years	Amount	Gross positions	Net man-years	Amount	Gross positions	Net man-years	Amount
Personal services and benefits: Personnel compensation:									
Home office:									
Office of the Director	2	0.2	$2,542	2	2.0	$26,960	2	2.0	$26,700
Division of Examinations	16	13.2	123,477	16	15.6	153,424	16	16.0	162,700
Division of Supervision	57	44.6	471,827	57	51.4	554,180	57	57.0	640,100
Total, home office	75	58.0	597,846	75	69.0	734,564	75	75.0	829,500
Field:									
Boston	42	38.2	290,578	37	35.9	307,319	37	35.9	321,250
New York	62	58.4	478,976	63	60.7	541,060	63	62.4	583,884
Pittsburgh	73	68.8	532,516	73	70.1	602,689	73	71.6	648,763
Greensboro	140	126.6	986,824	156	145.9	1,251,101	156	149.2	1,329,137
Cincinnati	95	91.9	759,548	94	89.9	795,703	94	91.4	849,603
Indianapolis	59	54.9	435,386	60	58.1	486,312	60	59.9	529,262
Chicago	98	88.6	695,236	99	94.7	829,121	99	96.4	884,398
Des Moines	48	44.4	341,426	49	48.5	417,809	49	48.7	436,476
Little Rock	77	64.5	501,458	76	71.3	608,989	76	72.8	657,472
Topeka	45	40.9	336,061	43	41.2	369,293	43	42.7	399,608
San Francisco:									
Portland area	50	47.5	382,739	50	48.1	426,289	50	49.6	461,547
Los Angeles area	130	120.9	909,817	125	120.2	1,028,251	125	123.5	1,091,400
Total field	919	845.6	6,650,565	925	884.6	7,663,936	925	904.1	8,192,800
Total personnel compensation	994	903.6	7,248,411	1,000	953.6	8,398,500	1,000	979.1	9,022,300

Mr. THOMAS. Next year, why can't you enlarge this table to show assets?

Mr. MCMURRAY. All right.

Mr. THOMAS. No need to have two or three tables. This can give the whole story.

The largest here is in Greensboro, positionwise but not dollarwise.

At San Francisco you have about 180, but you have split this, have you not?

Mr. MCMURRAY. Yes; that is split. Roughly, San Francisco would be about eight times bigger than Spokane.

Mr. THOMAS. You do not increase positions—925 against 925.

Mr. MCMURRAY. That is right.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Object classification

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
11 Personnel compensation:			
Permanent positions	800	1,063	458
Positions other than permanent	14	224	254
Other personnel compensation	31	40	12
Total personnel compensation	845	1,327	724
Deduct portion not chargeable to limitation	47	390	549
Net personnel compensation	798	937	175
12 Personnel benefits	56	70	16
21 Travel and transportation of persons	7	15	4
23 Rent, communications, and utilities	99	114	19
24 Printing and reproduction	37	41	3
25 Other services	129	122	6
26 Supplies and materials	14	16	2
Total accrued administrative expenses—costs	1,140	1,315	225

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	116	126	16
Average number of all employees	105	117	16
Employees in permanent positions, end of year	119	126	16
Employees in other positions, end of year	0	0	0
Average GS grade	7.9	10.3	10.3
Average GS salary	$7,408	$10,555	$10,816

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Administrative expenses:			
(a) Insurable interests and insurance settlement operations			225
(b) Underwriting	198	227	
(c) Prevention of default and payment of insurance	97	122	
(d) Analysis of operations	566	628	
(e) Executive direction and fiscal and other administrative services	279	338	
Total accrued administrative expenses—costs	1,140	1,315	225
Financing:			
Unobligated balance lapsing	21		
Limitation	1,161	1,315	225

Mr. THOMAS. Let us look at the Insurance Corporation. We shall insert the table on your income, page 125, income and expenses, and also insert page 126, statement of financial condition and page 124, sources and application of funds.

(The pages follow:)

A. Statement of sources and application of funds

	1963 actual	1964 estimate	1965 estimate
FUNDS APPLIED			
To operations:			
Acquisition of—			
Assets purchased to prevent default of insured institutions	$9,279,320	$61,720,000	$1,591,000
Furniture, fixtures, and equipment	38,425	59,000	78,000
Expenses	8,426,973	15,908,480	23,455,325
Increase in selected working capital	432,536		
Total applied to operations	18,177,254	77,687,480	25,124,325
To financing:			
Increase in investments in U.S. securities held (par)	268,594,000	250,000,000	349,000,000
Increase in cash with Treasury		123,080	
Total applied to financing	268,594,000	250,123,080	349,000,000
Total funds applied	286,771,254	327,810,560	374,124,325
FUNDS PROVIDED			
By operations:			
Realization of—			
Proceeds from sale of assets purchased to prevent default	7,291,678	4,768,000	8,671,000
Gain on sale of public debt securities	147,244		
Additional premiums credited to secondary reserve	184,761,687	205,140,000	221,000,000
Return on additional premiums—prepayments	5,948,376	13,020,000	20,303,000
Income	83,571,498	102,968,000	123,385,000
Decrease in selected working capital		1,942,080	603,000
Total provided by operations	281,720,483	327,838,080	373,962,000
By financing: Decrease in cash with treasury	5,050,771		304,000
Total funds provided	286,771,254	327,838,080	374,266,000
BUDGET EXPENDITURES			
Funds applied to operations	18,177,254	77,687,480	25,124,325
Funds provided by operations	281,720,483	327,838,080	373,962,000
Net budget expenditures	−263,543,229	−250,150,600	−348,837,675

NOTE.—The above are credited to net receipts of the fund.

B. Statement of income and expense

	1963 actual	1964 estimate	1965 estimate
Income:			
Insurance premiums and admission fees earned	$61,525,806	$71,574,000	$81,361,000
Interest earned on U.S. securities	22,031,833	31,393,000	42,023,000
Recoveries on contributions	12,853		
Profit on sale of securities	147,244		
Miscellaneous	1,005	1,000	1,000
Total income	83,718,741	102,968,000	123,385,000
Expenses:			
Administrative expenses	1,139,796	1,315,000	225,000
Payments to Federal Home Loan Bank Board	1,117,464	1,376,480	2,595,325
Liquidation and other expenses	31,829	197,000	332,000
Contributions to insured institutions	179,508		
Accrued return on additional premiums—prepayments	5,948,376	13,020,000	20,303,000
Subtotal	8,416,973	15,908,480	23,455,325
Depreciation	38,425	59,000	78,000
Provision for contributions to insured institutions	10,000		
Provision for losses on assets acquired	3,000,000		
Total expense	11,465,398	15,967,480	23,533,325
Net income for the year	72,253,343	87,000,520	99,851,675
ANALYSIS OF RETAINED EARNINGS [1]			
Retained earnings, beginning of year	471,061,511	543,314,854	630,315,374
Retained earnings, end of year	543,314,854	630,315,374	730,167,049

[1] In addition to retained earnings which are credited to the primary reserve, additional premiums (prepayments) and return on additional premiums are credited to a secondary reserve. (See statement C.)

C. Statement of financial condition

	1962 actual	1963 actual	1964 estimate	1965 estimate
ASSETS				
Cash	$11,750,079	$6,699,308	$6,849,908	$6,687,583
Investments in U.S. securities (par)	592,500,000	861,094,000	1,111,094,000	1,460,094,000
Accounts receivable	18,326,571	22,819,303	25,574,303	30,294,303
Assets acquired	44,662,386	43,650,028	100,602,028	93,522,028
Deferred charges	7,431	4,080		
Furniture, fixtures, and equipment	142,308	176,761	228,761	299,761
Less portion charged off as depreciation	142,308	176,761	228,761	299,761
Net furniture, fixtures, and equipment				
Total assets	667,246,467	934,266,719	1,244,120,239	1,590,597,914
LIABILITIES				
Current liabilities	324,693	310,676	353,676	391,676
Deferred credits: Unearned insurance premiums	27,427,622	31,498,484	36,148,484	41,433,484
Total liabilities	27,752,315	31,809,160	36,502,160	41,825,160
INSURANCE RESERVES				
Primary reserve	471,061,511	543,314,854	630,315,374	730,167,049
Secondary reserve (additional premiums)	167,409,192	354,805,876	570,509,818	808,000,818
Reserve for accrued return on additional premiums	391,986	3,256,887	6,792,887	10,604,887
Reserve for unpaid additional premiums	631,463	1,079,942		
Total insurance reserves	639,494,152	902,457,559	1,207,618,079	1,548,772,754
Total liabilities and insurance reserves	667,246,467	934,266,719	1,244,120,239	1,590,597,915

Mr. THOMAS. Here is a good paragraph on page 127. You are constantly seeking to improve the effectiveness and efficiency of your operations. The next page is important, page 128. Let us insert that.

(Page 128 referred to follows:)

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Some of the functions, duties, and personnel of the Office of the General Manager were transferred to the new Office of the Director, Federal Savings and Loan Insurance Corporation. The functions, duties, and personnel of the Underwriting Division were transferred to the new Application Division of the Board. The functions, duties, and personnel of the Insurance Settlement and Rehabilitation Division were transferred to the new Office of the Director, Federal Savings and Loan Insurance Corporation. The functions, duties, and personnel of the Operating Analysis Division were transferred to the recreated Operating Analysis Division in the Board. The functions, duties, and personnel of the Comptroller's Division were transferred to the Comptroller's Division of the Board.

Mr. THOMAS. We have seen many of these reorganizations. Every time we see a reorganization we look next year for an increase in expense.

Mr. MCMURRAY. You just wait and see.

Mr. JONAS. And we usually find it.

ADMINISTRATIVE EXPENSES

Mr. THOMAS. Let us insert pages 143, 144, and 145 in the record.

(The pages follow:)

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

ADMINISTRATIVE EXPENSES

Administrative and other expenses of the Corporation are paid from corporate funds received from insurance premiums, admission fees, and interest on investments.

The continued increase in the growth and level of activity of the savings and loan business reflects itself in the workload. The aggregate assets of insured institutions, the number of applications of all types received, the problems associated with a very fast growing industry, etc., all continue to maintain a high level. Membership increased during fiscal 1963 by 119, reaching 4,386 at June 30, 1963. Membership assets on the same date aggregated $96.2 billion, an increase of $12.8 billion or 15.3 percent in 1 year. They are expected to reach $124.2 billion by June 30, 1965, an increase of $28 billion or 29.1 percent in 2 years. Mortgage loans made by insured institutions in fiscal 1963 aggregated $21.9 billion. This figure broke the record, made 1 year ago, by $3.3 billion or 17.6 percent. Loans are expected to reach $23.8 billion during the current fiscal year and $24.9 billion in 1965. Potential liability increased from $71.8 billion at June 30, 1962, to $83 billion at June 30, 1963, an increase of $11.2 billion or 15.6 percent. This growth is expected to continue, reaching $107.1 billion by June 30, 1965, an increase of $24.1 billion or 29 percent in 2 years.

Due to the availability of the facilities, and the reorganization of the Board, the Corporation functions with a small staff. The estimate provides for an authorization of $225,000. On a comparable basis, it reflects a net decrease in funds of $20,788 when compared with the current fiscal year.

A comparative summary of administrative expenses for the last prior, current, and budget years as well as an analysis of personal services functions, other object classifications by type of object, and including justification of any increase or decrease will be found beginning on page 144.

Comparative summary of administrative expenses, fiscal years 1963, 1964, and 1965

	1963 actual			1964 estimate			1965 estimate		
	Gross positions	Net man-years	Amount	Gross positions	Net man-years	Amount	Gross positions	Net man-years	Amount
Personal services and benefits:									
Personnel compensation:									
Office of the Director, Federal Savings and Loan Insurance Corporation			0			0	16	16.0	$174,500
Office of the General Manager	10	8.0	$68,984	10	9.6	$95,360			0
Underwriting Division	20	18.9	165,982	22	20.2	189,849			0
Insurance Settlement and Rehabilitation Division	9	7.7	82,389	10	9.2	103,478			0
Operating Analysis Division	56	52.3	335,636	61	56.6	378,069			0
Comptroller's Division	21	18.4	145,340	23	21.2	170,608			0
Total, personnel compensation	116	105.3	798,331	126	116.8	937,364	16	16.0	174,500
Personnel benefits:									
Health benefits			4,197			5,540			1,250
Incentive awards			0			1,500			250
Life insurance			2,514			3,194			800
Retirement			48,343			58,821			14,200
Social security taxes (FICA)			849			581			0
Total, personnel benefits			55,903			69,636			16,500
Total, personal services and benefits			854,234			1,007,000			191,000
Contractual services and supplies:									
Travel and transportation of persons			6,915			15,000			4,000
Transportation of things			109			100			100
Rent, communications, and utilities			98,474			114,300			19,000
Printing and reproduction			37,063			41,000			3,000
Other services			128,534			121,600			6,400
Supplies and materials			14,467			16,000			1,500
Total, contractual services and supplies			285,562			308,000			34,000
Actual, authorization and estimate			1,139,796			1,315,000			225,000

OFFICE OF THE DIRECTOR

Mr. THOMAS. Insert page 146. This is the Office of the Director and the only positions that remain in the corporation.

(The page follows:)

Office of the Director

	1963 actual	1964 estimate	1965 estimate
Positions			16
Man-years			16
Net salary			$174,500

Under the general direction of the Federal Home Loan Bank Board this Office will review all insurance matters, including insurance settlement and rehabilitation, and advise the Board thereon. It will also develop policy guidelines for use by the Board and staff units in the handling of matters or cases affecting insurance interests.

The Office will be composed of the Insurable Interests Section, and the Insurance Settlement Section.

Insurable interests section.—This section will be responsible for reviewing all applications for insurance, subsequent to initial processing by the Applications Division of the Board and before their submission to the Board; it will also be responsible for reviewing other proposed actions directly affecting the interests of the Corporation and for advising the Board concerning such applications and such other proposed actions.

Insurance Settlement Section.—This Section, when required, will take steps, authorized by law, to prevent default or to restore insured institutions to normal operations. It will supervise the payment of insurance claims; it will develop plans for the settlement of insurance claims and/or the recovery and conversion into cash of assets of institutions in cases where the Corporation is appointed receiver.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

ACQUISITION OF ASSETS

Mr. DELAITTRE. Of the $105 million of mortgages and real estate owned at the end of last year belonging to the Insurance Corporation, approximately $40 million resulted from the Long Beach situation some time ago.

Approximately $2½ million resulted from a situation in Memphis a couple years ago.

The balance of mortgages and real estate is something over $60 million and have come to us during the past year from three associations in Chicago.

Mr. THOMAS. We are not interested in the names.

What Mr. Jonas wants to know is your record of performance. What is your loss, if any?

INSURANCE LOSSES

Mr. JONAS. What is your experience with them? Relate that, then, to the trouble you might have with respect to those the Insurance Corporation might acquire.

Mr. HUSBAND. Of the assets acquired we obtained some $14 million last May 1, and much of the balance was obtained this past October. You do not have sufficient time to evaluate what the performance will be.

Mr. THOMAS. What is your guess? You are able to come to some accurate conclusion by now.

Is it a 15-percent loss, 25 percent, 50 percent?

Mr. HUSBAND. I would estimate the losses for the three Chicago cases will approximate $10 million.

Mr. THOMAS. Out of what?

Mr. HUSBAND. Out of $60 million.

Mr. JONAS. That was a special situation regarding those three. How about the $14 million you took over last May? What is your experience there? Are they making the payments?

Mr. HUSBAND. I included it in the $10 million——

Mr. JONAS. The $14 million?

Mr. HUSBAND. I included that in the $10 million, Congressman.

Mr. THOMAS. Mr. Jonas, you might pursue it a little further. You might see what it was 6, 8, 10, 15 years ago.

Mr. JONAS. Give us a little record.

Mr. HUSBAND. Our losses up to about 2 years ago for the first 28 years of operation amounted to $5,400,000. Our estimated losses as of December 30, 1963, are $16.5 million. Within the last 2 years we have picked up roughly $11 million of losses.

Mr. JONAS. Did you find that those losses were increasing in the periods when we have been in recessions during the last decade?

Mr. HUSBAND. I would put it in reverse. Losses have come during periods of boom. In other words, there is overindulgence rather than underindulgence.

As Chairman McMurray said earlier, you have the wrong people in.

Mr. JONAS. Too liberal with their money?

Mr. HUSBAND. That is right.

Mr. THOMAS. Too anxious to make loans?

Mr. HUSBAND. That is right.

Mr. THOMAS. Competition for loans is great?

Mr. HUSBAND. That is right.

Mr. HORNE. They bargain one against the other and make deals.

Mr. THOMAS. Do you have a law that officers and directors cannot borrow from their own institutions?

Mr. HUSBAND. Yes, sir; but they scratch each other's backs.

Mr. HORNE. They crisscross and get around the law.

ASSOCIATIONS' INVESTMENTS IN NEW QUARTERS

Mr. JONAS. As I drive around the country I see savings and loan associations building magnificent offices. Is that a trend which is general throughout the country? Are some spending too much money on plush quarters?

Mr. MCMURRAY. There have been a great number of nice buildings erected by the associations. They are not allowed under our own regulations to invest in buildings in excess of their reserves and surplus without Board approval. In other words, they are held down to that.

The good associations are rather careful about maintaining what they consider a good ratio in terms of their investment in building quarters compared to their total assets.

The asociations that have built nice quarters find it is quite profitable in terms of attracting savings and attracting business. It is really amazing how much a good building attracts customers.

As soon as you build a new building the savers come in.

Mr. THOMAS. Putting up a good front. It always helps.

REORGANIZATION

Mr. JONAS. I wish you would turn to page 20, Mr. Chairman. This is apropos of your comemnt to Mr. McMurray that these organizations always seem to turn out to cost more money.

Mr. MCMURRAY. Did I say that?

Mr. JONAS. No; you didn't say that.

How can you say that your reorganization will not cost more money? Take the fourth column for 1965, $540,000, when you get the reorganization into effect, and that is more than either one of the previous 2 years, compared with $248,000 in 1964 and $172,000 in 1963. It seems as though when you get the reorganization into effect it will cost $300,000 to $400,000 more.

Mr. MCMURRAY. All I can say to you, Mr. Jonas, is that it would have cost a lot more if we did not reorganize.

As a result of our reorganization we have not increased the number of personnel.

Mr. JONAS. Your answer is that if you had not reorganized the 1965 figure would have been much higher?

Mr. MCMURRAY. Much higher.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. JONAS. What did you mean when you said the Board made 10 offers to the public?

Mr. MCMURRAY. No, sir. The 11 banks, now 12 banks, issue consolidated obligations, just like Treasury notes. We sell them on the market. The rates on those obligations run from 15 to 30 points above those of the Treasury, and with that money the banks make loans to the associations. That is how they get their money, by going to the market.

PRINTING AND REPRODUCTION

Mr. SHIPLEY. I see under "All other expenses," on page 12, printing and reproduction, $15,500. What did you get in the budget last year, $10,000?

Ten thousand dollars is what you requested last year. I wonder why more than 50-percent increase in printing and reproduction.

Mr. CORCORAN. We got $41,000 against $25,500 for this year.

Mr. SHIPLEY. I understand there is some you have to do, but why the large increases for every agency which comes before us? Some come in with a 50- to 75-percent increase on printing and reproduction. Couldn't you cut that in half?

Mr. CORCORAN. You mean the increase?

Mr. SHIPLEY. Yes.

Mr. MCMURRAY. If you are acquainted with the material we send out, Mr. Shipley, I think you will find it is very valuable for the institutions we serve, the industry, and so on. We are issuing more statistics than heretofore. We have the series on interest rates, the series on foreclosures which is new, and those two alone perhaps account for a good portion of this.

Mr. SHIPLEY. You cut down on printing and reproduction and then cut down on postage and then cut down on man-hours to put this out, and there is a long chain involved.

Mr. CORCORAN. We are now going to print a 32-page Federal Home Loan Bank Board Review. The difference between the 2 years is $17,000. It is costing us $17,000 more in 1965 than in 1964 for this review. Provision is made for approximately 3 months in the current fiscal year and for the full year in 1965.

Mr. MCMURRAY. Most of our material goes to the savings and loan institutions that need this information and to the people in the financial community that make use of it. It is a good investment for these institutions because they ultimately pay for it themselves, through membership in the home loan banks. What we are really doing is servicing them with this kind of material. Most of the material that comes out is very valuable.

The three Board members pride themselves on being concerned about a dollar's value for every dollar spent.

Though in detail I cannot answer your question, all I can say is that of the material that comes across my desk which goes out of our agency, there is nothing, as far as I can see, that we can cut down on; if we cut down it would be a disservice to the associations and the public.

Whether any more economies can be made, I am not sure. Memorandum after memorandum has gone to the directors of our various offices emphasizing the importance of economy. We hope the word is out as to how we feel. If that figure is there and it is not spent——

Mr. SHIPLEY. The only point I make is that every agency comes in every year with a request for twice as much as they had. This is a big item.

Mr. HORNE. This one item——

Mr. THOMAS. Last year we cut it 15 percent, I believe.

Mr. HORNE. This one item accounts for most of this, the Monthly Review.

Mr. SHIPLEY. I am sure it is a good publication. I am saying it is a shame that every agency comes in with a 50-percent increase every year.

PAY ACT COSTS

Mr. THOMAS. The pay increase is how much? I refer to the statutory increase. I don't remember seeing that anywhere.

Mr. CORCORAN. $44,000, the increase in 1965 over 1964 for the Board and staff offices; for 1965 it is approximately $88,000.

ANNUALIZATION COSTS

Mr. THOMAS. Can you give us a rough figure of the annualization bill compared to last year?

Mr. CORCORAN. On a comparable basis, it is $137,000 for 1965; it was $74,000 last year.

Mr. THOMAS. What page is that on?

Mr. CORCORAN. It is in my black book, sir.

Mr. THOMAS. Where is it in our records?

Mr. CORCORAN. It is not. I gave the original of my notes on it to the clerk.

Mr. THOMAS. $137,000 this year and $74,000 last year?

Mr. CORCORAN. Yes, sir. I don't know how many people that covers. We will furnish it for the record.

(The following was supplied for the record:)

Thirty positions will be annualized.

Mr. THOMAS. What is the pay increase?

Mr. CORCORAN. $44,000 for this year in the Board and staff offices, and about $88,000 for fiscal 1965.

Mr. THOMAS. Less than $200,000?

Mr. CORCORAN. $778,000 worth of positions were transferred from the Insurance Corporation to the Board for 1965.

Mr. THOMAS. Thank you, gentlemen. We always like to have you here. You are very knowledgeable and we enjoy having you.

Mr. MCMURRAY. Thank you, Mr. Chairman and gentlemen.

THURSDAY, FEBRUARY 6, 1964.

CIVIL SERVICE COMMISSION

WITNESSES

JOHN W. MACY, JR., CHAIRMAN
L. J. ANDOLSEK, COMMISSIONER
WARREN B. IRONS, EXECUTIVE DIRECTOR
DAVID F. WILLIAMS, DIRECTOR, BUREAU OF MANAGEMENT SERVICES
W. B. UHLENHOP, CHIEF, BUDGET AND FINANCE DIVISION
JAMES A. HAMILL, CHIEF, BUDGET SECTION
N. J. OGANOVIC, DEPUTY EXECUTIVE DIRECTOR
SEYMOUR S. BERLIN, DIRECTOR, BUREAU OF INSPECTIONS
KIMBELL JOHNSON, DIRECTOR, BUREAU OF PERSONNEL INVESTIGATIONS
ANDREW E. RUDDOCK, DIRECTOR, BUREAU OF RETIREMENT AND INSURANCE
O. GLENN STAHL, DIRECTOR, BUREAU OF PROGRAMS AND STANDARDS
MISS EVELYN HARRISON, DEPUTY DIRECTOR, BUREAU OF PROGRAMS AND STANDARDS

Mr. THOMAS. We have with us this morning our friends from the Civil Service Commission. It is always one of the highlights of our year to have the Civil Service Commission with us. We are delighted and honored to have Mr. Macy, the Chairman; Mr. Andolsek, Commissioner, who has been on the Hill here for many years with us; Mr. Irons—have you a vacancy?

Mr. MACY. Commissioner Hampton is the third Commissioner. He is ill today and was unable to be with us. He sends his regrets.

Mr. THOMAS. Give him our best and tell him we miss him.

It is always nice to have our old friends with us, the Executive Director, Mr. Irons; Mr. Williams, Director, Bureau of Management Services; Mr. Uhlenhop, Chief, Budget and Finance Division, and Mr. Hamill, Chief, Budget Section.

We also have Mr. Oganovic, Deputy Executive Director; Mr. Berlin, Director of the Bureau of Inspections; Mr. Johnson, Director, Bureau of Personnel Investigations; Mr. Ruddock, Director, Bureau of Retirement and Insurance.

Also we have Mr. Stahl, Director of the Bureau of Programs and Standards, and Miss Evelyn Harrison. Miss Harrison used to come over about once every other year. Madam Harrison, we respectfully request you come to see us every year.

Mr. Chairman, do you or your colleagues have a general statement?

Mr. MACY. I have a brief 10-minute statement here which I believe will summarize the Commission's position with respect to the estimates for fiscal year 1965.

Mr. Chairman and members of the committee, we are glad to meet with you to discuss the program goals and financial requirements of the Civil Service Commission for fiscal year 1965.

FEDERAL EMPLOYMENT

With respect to employment in the executive branch the President's budget established employment ceilings of 2,512,400 for June 30, 1964, and 2,511,200 for June 30, 1965. In establishing these ceilings President Johnson made it clear that they constituted ceiling figures and not employment goals.

Mr. THOMAS. What is the reduction?

Mr. MACY. 1,200 between the 2 years.

Mr. THOMAS. It is in the fiscal year, is it not?

Mr. MACY. 1,200 in the fiscal year.

Mr. THOMAS. From the beginning of the fiscal year to the end?

Mr. MACY. That is correct. As stated in the budget, the President directed the heads of all departments and agencies to work toward reducing employment below these ceiling figures. For example, in the Commission the approved ceiling as of June 30, 1964, is 4,125. I have directed our employment level to be reduced to 4,079 by that date, which is the approved ceiling figure for June 30, 1965. It is expected that heads of other agencies and departments will take similar action which will result in a decrease in the level of employment in the executive branch.

Mr. JONAS. Do you think that can be accomplished, all of it, through attrition?

Mr. MACY. The great bulk of it can be accomplished through attrition. The only place where I have some reservation about our capability of doing this is with respect to the bases being closed or phased out by the Department of Defense.

However, Secretary McNamara has made it clear that every employee who is involved in one of those base closings will be given an opportunity for employment elsewhere in the Defense Department.

TURNOVER RATE

Mr. JONAS. What is the current turnover rate?

Mr. MACY. The current new hire rate Government-wide on an annual basis is approximately 14.4 percent, which would mean slightly over 1 percent a month.

Mr. THOMAS. Have we not been using the figure of 16 percent?

Mr. MACY. Yes, sir.

Mr. THOMAS. How do you account for the reduction from 16 to 14?

Mr. MACY. There has been a reduction in the amount of turnover attributable to the improved salary scales being offered, and to good management on the part of the departments and agencies.

Mr. THOMAS. The high level of unemployment is not the biggest factor?

Mr. MACY. The availability of skills in the labor market undoubtedly contributes.

Mr. THOMAS. Certainly it is an important factor?

Mr. MACY. In some areas.

Mr. THOMAS. Jobs are hard to come by and the man who has one will hang onto it. Is that right?

Mr. MACY. Also, Mr. Chairman, we have found from past experience that when employment is stable in the Federal Government there is a tendency for those who are in Government jobs to remain on those jobs rather than to leave; whereas when the employment is rising there tends to be a higher turnover.

TRANSFERS DUE TO REDUCTIONS IN FORCE

Mr. BOLAND. What has been the experience of Civil Service where there have been reductions in force? Secretary McNamara has said he will give the opportunity to transfer where there are serious reductions. This transfer of people does not work very well. What percentage is transferred? If you have 500 laid off at a Navy yard or a defense installation, what percentage would transfer to California or some other area?

Mr. MACY. The great effort, Mr. Boland, is to place those who have become surplus within the immediate area in another defense activity.

Mr. BOLAND. This is a lot of nice talk but it really doesn't work that way at all; does it? You say the great effort is to place them in the area. I would like to see some figures sometime as to actually how many are placed. You get mechanics laid off in a Government installation in a particular area; no other Government installation picks them up at all because they are also working on a reduction-in-force program, so this does not work at all. It sounds nice all the time and it is great to see it.

(Discussion held off the record.)

Mr. MACY. Let me assure you we are making every possible effort.

Mr. BOLAND. I know you are making the effort.

Mr. MACY. We cannot guarantee that everybody will get a job. There is not only effort in the Defense Department but there is an interdepartmental effort.

Mr. BOLAND. What do you do with mechanics? You talk about interdepartmental efforts. Civil Service does as good a job as it can do, but actually the job does not really square with the press releases and notices we get as to what actually is done. Where do you put mechanics if you lay them off? You can't put them anywhere.

Mr. MACY. We try to use them in the local area or move them to another location if they are willing to go.

Mr. BOLAND. You don't get a great number of r.i.f.'s in most of the other agencies. Big reductions come in Defense, as we all know.

Mr. MACY. That is correct.

Mr. BOLAND. It is easier to accomplish a transfer in other agencies than with employees in the Department of Defense.

Mr. MACY. You are right. This is a serious problem in Defense. That is why I qualified my response to Mr. Jonas with respect to our ability to actually place these people. However, we are determined as these bases are closed down to bear in mind the human factor involved.

One reason Mr. McNamara has phased them out over a longer period of time is so we can do something about the individual.

Mr. BOLAND. I think it is good judgment and I applaud the Civil Service efforts to place these people. I think it tries and does do a good job, but it is minimal. It has not touched the big reductions in force.

Mr. EVINS. Many are placed in retraining schools to retrain in other skills?

Mr. MACY. In some cases. Of course, we are limited in placing them in other agencies to those jobs where the skills are transferable. Where you have a man doing a specialized mechanical or machinist's job on a particular weapon, it is very difficult to transfer unless there is some kind of retraining, as Mr. Evins says.

Mr. WILLIAMS. During fiscal 1963 more than 35,000 people did transfer from one Government job to another. What we don't know is how many of these were transfers because they were losing their jobs or because of promotional opportunities.

CURRENT FEDERAL EMPLOYMENT

Mr. JONAS. One other figure for comparative purposes.

Where you interrupted your presentation, if you could put in the employment level as of January 1, 1964.

Mr. THOMAS. Yes, let us get those figures.

Mr. MACY. Very well, sir.

(Discussion held off the record.)

Mr. MACY. Sir, the strength report as of December 31, 1963, shows executive branch employment at 2,476,000.

Mr. THOMAS. What is it?

Mr. MACY. 2,476,000.

Mr. THOMAS. Go ahead.

Mr. MACY. This is roughly 40,000 less——

Mr. THOMAS. What was the figure of 12 months ago?

Mr. MACY. Twelve months ago—we have it——

Mr. THOMAS. Wasn't it around 2.5 million?

Mr. MACY. The figure at June 30, 1963, was 2,497,000. The figure at the end of December was——

Mr. THOMAS. Make it round figures. It has been more or less stationary for the last 3 or 4 years at 2.5 million. Is that about accurate?

Mr. MACY. That is about accurate. There was an increase in 1961 and in 1962.

Since 1962 there has been——

Mr. THOMAS. Repeat for the record—what is the aim of this administration, through Mr. McNamara's closing these installations, and so on, and what will that figure be at the end of the present fiscal year?

Mr. MACY. At the end of the present fiscal year the President has set an absolute ceiling of 2,512,000.

Mr. THOMAS. There is no reduction, then.

Mr. MACY. The reason there is no reduction from the current figure is that the ceiling reflects seasonal employment.

Mr. THOMAS. All right; give us the present calendar year.

Mr. MACY. There is no forecast for that particular time.

Mr. THOMAS. Do you see a reduction, gentlemen? Where is the reduction?

Mr. MACY. The increase in the next 6 months is due to seasonal employment that occurs during the spring and summer months. That will bring it up in the neighborhood of this ceiling figure.

Mr. EVINS. A slight reduction in ceiling but not actual jobs.

FEDERAL EMPLOYMENT, 1959–63

Mr. JONAS. To have real comparability you would have to use December 31 and June 30 figures over a period of time because there is fluctuation.

Mr. THOMAS. Mr. Chairman, why not give us a table, say as of January 1, of the last 5 years or some comparable period?

Mr. MACY. I can give you the figures right now for June 30.

Mr. THOMAS. For 5 years?

Mr. MACY. Back to 1957.

Mr. THOMAS. Read it into the record and then put it into the record in the form of a table.

Mr. MACY. The executive branch strength at the end of the fiscal years were as follows:

1957, 2,389,000; 1958, 2,354,000; 1959, 2,354,000; 1960, 2,370,000; 1961, 2,407,000; 1962, 2,484,000; and 1963, 2,497,000.

Then the figure I gave you for December 31, 1963, 6 months after the previous figure, is 2,476,000, which shows a reduction of 21,000 in the 6 months period.

(The information requested follows:)

Executive branch employment, 1959–63

Year	June 30	Dec. 31 [1]
1963	2,497,699	2,476,122
1962	2,484,654	2,474,732
1961	2,407,029	2,419,008
1960	2,370,827	2,345,012
1959	2,355,027	2,352,614

[1] Excluding Post Office Christmas temporary employees.

Mr. THOMAS. What will be the hopes and aspirations for December 31, 1964? What is the target?

Mr. MACY. The target for that date should be——

Mr. THOMAS. Is that a guess figure?

Mr. MACY. A guess figure of about 20,000 less than the present figure.

GENERAL STATEMENT

Mr. THOMAS. Have you finished your statement?

Mr. MACY. May I file my complete statement for the record?

Mr. THOMAS. Yes, we shall insert it in the record.

(Mr. Macy's statement follows:)

STATEMENT BY JOHN W. MACY, JR., CHAIRMAN, U.S. CIVIL SERVICE COMMISSION

Mr. Chairman and members of the committee, we are glad to meet with you to discuss the program goals and financial requirements of the Civil Service Commission for fiscal year 1965.

With respect to employment in the executive branch the President's budget established employment ceilings of 2,512,400 for June 30, 1964, and 2,511,200 for June 30, 1965. In establishing these ceilings President Johnson made it clear that they constituted ceiling figures and not employment goals. As stated in the budget, the President directed the heads of all departments and agencies to work toward reducing employment below these target figures. For example, in the Commission the approved ceiling as of June 30, 1964, is 4,125. I have directed our employment level to be reduced to 4,079 by that date, which is the approved ceiling figure for June 30, 1965. It is expected that heads of other agencies and departments will take similar action which will result in a decrease in the level of employment in the executive branch.

During the past 2 years the Commission has achieved significant reductions in administrative and operating costs. These economies, which I discussed with you last year, made it possible to assume new responsibilities and workloads without increased appropriations and to absorb more than 40 percent of increased pay costs in fiscal year 1963. Although increased workloads in certain areas of the Commission's responsibilities are inevitable and beyond our control, we expect continued improvements and efficiencies to occur; and, in the spirit of President Johnson's desire to reduce Federal employment, we expect the overall employment of the Commission to decline. I want to assure you that the Commission will continue to render essential services to the agencies and the public without impairment and we will continue to seek ways to improve our operations.

I would like to discuss briefly and highlight the principal changes in the various appropriations and funds for which the Civil Service Commission has responsibility.

SALARIES AND EXPENSES APPROPRIATION

For salaries and expenses, the budget request of $22,187,000 represents a net increase of $382,000 over the amount appropriated for fiscal year 1964. At comparable pay scales the total budget request is only $11,000 over the current fiscal year program. A reduction of 36 positions and $230,400 is expected to result from continued improvements in operations and slight reductions in some workload items during 1965.

An increase of $267,000 is requested for expenses other than salaries. This will provide for three items costing $365,000 offset by a reduction in travel requirements of $98,000. The items requested are: (1) The purchase of mechanized filing equipment for the investigative index and security files, $165,000; (2) the purchase of an electronic digital computer, $133,000; and (3) increased cost of telecommunications services to be charged by the General Services Administration, $67,000.

The purchase of the improved filing equipment will eliminate the need for 10 positions at an annual saving of $43,000 in salary costs and this saving has been given effect in this request. The Commission acquired an electronic digital computer in 1962 on a lease with option to purchase. Our experience with this equipment has clearly demonstrated its value to the operations of the Commission on a continuing basis. The optimum time to purchase the equipment, in terms of savings to the Government, is during fiscal year 1965.

INVESTIGATION OF U.S. CITIZENS FOR EMPLOYMENT BY INTERNATIONAL ORGANIZATIONS

This appropriation is used to finance investigations by the Civil Service Commission and the Federal Bureau of Investigation of U.S. citizens seeking employment by international organizations. The Commission and the FBI are merely the service organizations in this regard and have no control over the workloads received.

The budget request for fiscal year 1965 of $634,000 is an increase of $34,000 over the current year. The request is based upon workload estimates furnished by the Department of State and the higher pay scales to be in effect during fiscal year 1965.

The prompt investigation of the requests received in this program is of vital importance.

ANNUITIES UNDER SPECIAL ACTS

Annuities are paid to persons who were employed on the construction of the Panama Canal or to their widows, and benefits are paid to widows of former employees of the Lighthouse Service.

The requirements for this item decrease each year due to drops from the annuity rolls caused by deaths. The budget request of $1,700,000 reflects a decrease of $100,000 and provides for the continuation of annuities authorized.

GOVERNMENT PAYMENT FOR ANNUITANTS, EMPLOYEES HEALTH BENEFITS FUND

This appropriation covers the contribution of the Government toward the cost of health benefits for annuitants participating in this program, and these funds are placed in the employees health benefits fund. The number of annuitants enrolled in this program increases each year resulting in an increase in the Government's contribution required. The enrollment of 116,300 on June 30, 1963, is expected to increase to over 200,000 by 1965.

The Government's share of the cost in 1965 is estimated to be $11,469,000. However, utilization of an expected unobligated balance in the fund of $805,000 brings the appropriation request down to $10,664,000.

An expense limitation of $1,151,000 is requested to provide for the administration of the employee health benefits program in fiscal year 1965.

GOVERNMENT CONTRIBUTIONS, RETIRED EMPLOYEES HEALTH BENEFITS FUND

This appropriation provides the Government's share of the cost of health benefits coverage to those annuitants not eligible to participate in the employees' program. An appropriation of $14,840,000 is requested based on current premium rates and the number of participants.

An expense limitation of $348,000 is requested for administration of the program in fiscal year 1965. As in the past 2 years, the Commission is requesting a dollar limitation to cover administrative expenses of the retired employees health benefits program in lieu of the limitation of 2 percent of the Government's contribution as provided in the basic act. The bill, H.R. 3517, to remove the 2-percent limitation has been approved by the House and is now pending in the Senate.

PAYMENT TO CIVIL SERVICE RETIREMENT AND DISABILITY FUND

Funds in the amount of $65 million are requested under this head to cover the cost of increased benefits in fiscal year 1965 payable under part III of Public Law 87–793. As required by law, estimates of the appropriation necessary to finance the fund on a normal cost plus interest basis are included in the document before you. However, an appropriation request for this amount is not being made.

Bills have been introduced in both the House and Senate to improve the method of financing the civil service retirement system. Hearings were held last summer by the Senate Post Office and Civil Service Committee, and we hope that the Congress will act on this matter during the current session.

LIMITATION ON ADMINISTRATIVE EXPENSES, EMPLOYEES' LIFE INSURANCE FUND

A limitation of $277,000 is requested to provide for administration of the Federal employees group life insurance program. The workload increases slightly each year because of the larger number of insured annuitants participating in the regular program.

This concludes my opening statement, gentlemen. We shall be glad to answer any questions the committee may have.

PAY INCREASE COST IN 1965

Mr. THOMAS. What is the amount of the pay increase in this budget, 2½ percent? It is automatic, statutory.

Mr. MACY. Automatic and for a full year. It is $371,000 above 1964 for the Commission's salaries and expenses appropriation.

Mr. THOMAS. Is it on a 6 months' basis or 12 months?
Mr. MACY. Twelve months in 1965.
Mr. THOMAS. Full annual basis in 1965. What is the total amount?
Mr. MACY. $371,000.
Mr. THOMAS. How much did you absorb of that?
Mr. MACY. We absorbed 40 percent of the increase in 1963. The increase in 1965 is an extension of the salary level——
Mr. THOMAS. How much of the $371,000 did you absorb?
Mr. WILLIAMS. Forty percent required of us in the current fiscal year and——
Mr. THOMAS. That is water over the dam. How much this year?
Mr. WILLIAMS. None.
Mr. THOMAS. That is what I was afraid of.
Mr. WILLIAMS. However, we have offset $230,000 of the $371,000 increase which has occurred by other administrative savings.

FINANCING THE CIVIL SERVICE RETIREMENT FUND

Mr. JONAS. By reason of what you say on page 5 of your statement, will you explain in a little more detail the first paragraph there on page 5? Does this mean you are not asking for any money to continue the program of keeping the civil service retirement fund current?
Mr. MACY. This means we are not asking for any additional money to bolster the fund in view of the bills currently pending to provide for improved financing of the retirement fund.
Mr. JONAS. In the past few years we have been paying in agency by agency enough money to keep the fund from becoming more delinquent or more in the red. You are not asking for money to do that this year?
Mr. MACY. No. The $65 million referred to here is the money necessary to pay for the annuity increase authorized in part 3 of Public Law 87–793.
Mr. JONAS. I understand that.
Mr. MACY. And that is all. We are not requesting additional funds because of the bills that are pending to provide for improved retirement financing over the long-term future. This is embodied in H.R. 6412 and 6366.
Mr. JONAS. If those bills do not become law how much higher will the deficit go this year?
Mr. MACY. If those bills do not become law the increase in the unfunded liability will be about $1,100 million.
Mr. JONAS. Up to what?
Mr. MACY. Which will raise it up to approximately $37 billion.
Mr. THOMAS. Off the record.
(Discussion held off the record.)

SUMMARY OF BUDGET ESTIMATES

Mr. THOMAS. Let us insert page (i) in the record at this point, the cover sheet. It is a good breakdown.

(The page follows:)

JUSTIFICATIONS OF ESTIMATES OF APPROPRIATIONS FOR FISCAL YEAR 1965

The Civil Service Commission submits herewith its estimates of appropriations and fund requirements for fiscal year 1965, together with detailed justifications therefor. A comparative summary of amounts requested for fiscal year 1965 to current year amounts follows:

Appropriation or fund title	Fiscal year 1964	Fiscal year 1965	Changes (+ or −), 1965 estimates over 1964
Salaries and expenses	$21,805,000	$22,187,000	+$382,000
Investigation of U.S. citizens for employment by international organizations	600,000	634,000	+34,000
Annuities under special acts	1,800,000	1,700,000	−100,000
Government payment for annuitants, employees' health benefits fund	9,500,000	10,664,000	+1,164,000
Administrative expenses, employees' health benefits fund (limitation only)	1,125,000	1,151,000	+26,000
Government contributions, retired employees' health benefits fund	14,800,000	14,840,000	+40,000
Administrative expenses, retired employees' health benefits fund (limitation only)	392,000	348,000	−44,000
Payment to civil service retirement and disability fund	62,000,000	65,000,000	+3,000,000
Administrative expenses, employees' life insurance fund (limitation only)	270,000	277,000	+7,000

NUMBER OF EMPLOYEES IN CSC

Mr. THOMAS. How many new jobs do you have? There is no table where you pull it all together jobwise. Do you have one in your private files by activities?

Mr. MACY. Reductions by activities?

Mr. THOMAS. Employment by activities all on one sheet. The information is here but you have to go through every activity and add up all the jobs. Is this $382,000 increase all pay act costs? How many jobs do you have?

Mr. MACY. Actually the amount of money——

Mr. THOMAS. Thirty-six?

Mr. MACY. There is a reduction of 36 positions in the salaries and expenses appropriation request for fiscal year 1965. An increase of $382,000 results when the Commission's 1965 request is compared to the 1964 appropriation covering salaries at the lower pay rates. If 1965 were compared to 1964 adjusted to a comparable basis, the increase is only $11,000. The increase is predominantly in nonsalary items. It provides for the purchase of mechanized filing equipment for the security program and for the purchase of a computer.

Mr. THOMAS. You have purchase of a computer for $133,000 plus rent of $90,000.

Mr. MACY. Also $67,000 for GSA telecommunication.

Mr. THOMAS. That comes under other objects.

Mr. MACY. Yes.

Mr. THOMAS. But so far as jobs are concerned, does the 36 less jobs offset the $371,000 for pay increase? It just about does.

Mr. MACY. It just about does. The total request is $11,000 more at comparable pay levels than the current fiscal year. There is a net reduction of 36 positions and a decrease of $230,400 in personal services, but an increase of $241,400 for other objects. I can give you the reduction by activity.

Mr. THOMAS. Let us insert pages (ii) through (v).

(The pages follow:)

Brief comments regarding each appropriation and fund request follow:

Appropriation: "Salaries and expenses, Civil Service Commission."—The Commission is requesting $22,187,000 for its salaries and expenses appropriation to perform its continuing functions and responsibilities in fiscal year 1965. This request provides for increases of $615,700 for personnel compensation and other objects of expense, which are partially offset by decreases of $233,700, resulting in a net increase of $382,000 over the 1964 appropriation. However, on the basis of pay scales to be effective in fiscal year 1965 under current legislation, the amount requested represents a net increase of only $11,000 above the level authorized for fiscal year 1964.

Appropriation: "Investigation of U.S. citizens for employment by international organizations."—Funds appropriated under this heading provide for investigations by the Federal Bureau of Investigation and the Civil Service Commission of U.S. citizens employed or being considered for employment in international organizations of which the U.S. Government is a member and for review of reports by the International Organizations Employees Loyalty Board of the Commission as directed by Executive Order 10422, as amended.

Workload estimates for fiscal year 1965 are based upon information from the Department of State. The funds requested for fiscal year 1965 ($634,000) reflect increased receipts as well as higher salary rates. The request represents an increase of $34,000 from the appropriation for fiscal year 1964.

Appropriation: "Annuities under special acts."—This appropriation provides for the payment of annuities to former Federal civilian employees under the Panama Canal Construction Annuity Act (48 U.S.C. 1373a) as amended, and to widows of former Federal employees under the Lighthouse Service Widows Benefit Act (33 U.S.C. 771–775).

The request for fiscal year 1965 is for the continuation of annuities authorized in accordance with current legislation. However, since the net number of annuitants is declining the funds required for fiscal year 1965 ($1,700,000) are estimated to be $100,000 less than the fiscal year 1964 appropriation.

Appropriation: "Government payment for annuitants, employees health benefits fund."—The Federal Employees Health Benefits Act (5 U.S.C. 3006) provides that sums authorized to be contributed by the Government with respect to any annuitant (as defined therein) shall be paid from annual appropriations made for such purpose. Based upon the Commission's experience under the Civil Service Retirement Act, projected to include all of the retirement systems affected, the Government's contribution for annuitants, as provided by the act, will total $11,469,000 in fiscal year 1965. However, the Commission estimates that there will be an unobligated balance of $805,000 carried forward from fiscal year 1964 and available for expenditure in fiscal year 1965, resulting in a net appropriation request of $10,664,000.

Expense limitation: "Administrative expenses, employees health benefits fund."—The Federal Employees Health Benefits Act (5 U.S.C. 3006) provides that the employees health benefits fund shall be made available for sums expended by the Commission in administering the provisions of this act within such limitations as may be specified annually by the Congress.

For fiscal year 1965, an expense limitation of $1,151,000 is requested to carry out the Commission's responsibilities for administering the employees health benefits program, an increase of $26,000 from the limitation authorized for 1964.

Appropriation: "Government contributions, retired employees health benefits fund."—The Retired Federal Employees Health Benefits Act (5 U.S.C. 3053) provides that the amounts authorized to be contributed by the Government with respect to retired employees (as defined therein and including survivor annuitants) shall be paid from annual appropriations made for such purpose. Based on experience with those already enrolled and applying this to all retirement systems, it is estimated that the Government's contribution for fiscal year 1965 will amount to $14,853,000. Of this amount, $13,000 will be derived from unobligated balances carried forward from fiscal year 1964, resulting in a net fiscal year 1965 appropriation request of $14,840,000.

Expense limitation: "Administrative expenses, retired employees health benefits fund."—The Retired Federal Employees Health Benefits Act (5 U.S.C. 3053) provides that the retired employees health benefits fund shall be available without fiscal year limitation to pay for administrative expenses incurred by the Commission in an amount not to exceed 2 percent of the Government's contribution. However, the Independent Offices Appropriation Act of 1964 provided a dollar limitation on administrative expenses without regard to the 2-percent limitation as specified in the act.

For fiscal year 1965, the Commission estimates a total need of $348,000 in order to fulfill its responsibilities under this program, a decrease of $44,000 from the 1964 limitation authorized.

Appropriation: "Payment to civil service retirement and disability fund."—Part III of Public Law 87–793, approved October 11, 1962, provides for adjustment of annuities including those already in payment as well as the majority to be awarded in the future, effective January 1, 1963. An appropriation of $62 million has been authorized to provide for these increased benefits in fiscal year 1964. The fiscal year 1965 request ($65 million) is for the same purpose.

Expense limitation: "Limitation on administrative expenses, employees' life insurance fund".—The Federal Employees' Group Life Insurance Act (5 U.S.C. 2091–2103) as amended, provides that the employees' life insurance fund shall be available for any expenses incurred by the Commission in the administration of the act.

For fiscal year 1965, the Commission requests an expense limitation of $277,000, an increase of $7,000 over the 1964 authorized amount, to fulfill its responsibilities of (1) maintaining the regular insurance program and (2) servicing the full membership of the beneficial associations whose insurance agreements have been assumed by the fund.

Full field security investigation program

Pursuant to title 22, U.S.C. 1661, other laws, and Executive orders, the Civil Service Commission conducts full field security investigations for various agencies of the Government. Since this work is done on a reimbursable basis, the Commission is not requesting funds for this purpose. A statement of the status of this program is contained in this document.

Salaries and Expenses

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	17,433	17,380	17,559
	Positions other than permanent	126	122	124
	Other personnel compensation	225	153	87
	Total personnel compensation	17,784	17,655	17,770
12	Personnel benefits	1,308	1,314	1,321
21	Travel and transportation of persons	462	548	450
22	Transportation of things	132	135	135
23	Rent, communications, and utilities	957	1,057	1,124
24	Printing and reproduction	490	490	490
25	Other services	126	126	126
	Services of other agencies	183	184	177
26	Supplies and materials	225	225	225
31	Equipment:			
	Furniture and other equipment	467	71	71
	Mechanized filing equipment			165
	Computer			133
	Total obligations	22,134	21,805	22,187

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	2,740	2,640	2,610
Full-time equivalent of other positions	24	23	23
Average number of all employees	2,514	2,413	2,377
Employees in permanent positions, end of year	2,392	2,378	2,348
Employees in other positions, end of year	42	42	42
Average GS grade	7.3	7.3	7.3
Average GS salary	$6,985	$7,309	$7,373

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Recruiting and examining	6,795	6,784	6,824
2. Investigation of character and fitness for employment	3,228	3,332	3,294
3. Inspections	2,737	2,719	2,708
4. Administration of the retirement systems	3,272	3,350	3,330
5. Developing programs and standards	1,935	1,954	1,968
6. Appellate functions	1,013	961	964
7. Career development and training	404	427	435
8. Executive and administrative services	2,552	2,639	2,664
Total program costs, funded	21,936	22,166	22,187
Change in selected resources [1]	198	—361	
Total obligations	22,134	21,805	22,187
Financing: Unobligated balance lapsing	8		
New obligational authority	22,141	21,805	22,187
New obligational authority:			
Appropriation	22,161	21,805	22,187
Transferred to "Operating Expenses, Public Buildings Service, General Services Administration" (76 Stat. 728 and 77 Stat. 436)	—20		
Appropriation (adjusted)	22,141	21,805	22,187

[1] Selected resources as of June 30 are as follows: Unpaid, undelivered orders, 1962, $365,000 (1963 adjustments, —$40,000); 1963, $523,000; 1964, $162,000; 1965, $162,000.

Mr. THOMAS. We shall turn now to salaries and expenses. Please insert in the record at this point pages 1, 2, and 3 of the justifications.

(The pages follow:)

For necessary expenses, including services as authorized by section 15 of the Act of August 2, 1946 (5 U.S.C. 55a); not to exceed $10,000 for medical examinations performed for veterans by private physicians on a fee basis; payment in advance for library membership in societies whose publications are available to members only or to members at a price lower than to the general public; [not to exceed $90,000 for performing the duties imposed upon the Commission by the Act of July 19, 1940 (54 Stat. 767); reimbursement of the General Services Administration for security guard services for protection of confidential files;] and not to exceed $5,000 for actuarial services by contract, without regard to section 3709, Revised Statutes, as amended; [$21,805,000] *$22,187,000: Provided*, That no part of this appropriation shall be available for the Career Executive Board established by Executive Order 10758 of March 4, 1958, as amended.

No part of the appropriations herein made to the Civil Service Commission shall be available for the salaries and expenses of the Legal Examining Unit in the Examining and Personnel Utilization Division of the Commission, established pursuant to Executive Order 9358 of July 1, 1943. (*5 U.S.C. 22–1, 73b–3, 150, 631–642, 645c–645e, 652, 659, 851–869, 901–958, 1010, 1051–1052, 1071–1133, 1151, 1162, 1171–1174, 2001–2007, 2061–2066, 2121–2123, 2251–2268, 2281–2288, 2301–2319; 28 U.S.C. 2671–2680; 39 U.S.C. 3311, 3312, 3315, 3502; 40 U.S.C. 42, 491; 50A U.S.C. 459; 65 Stat. 757; 66 Stat. 122; 68 Stat. 1115; 76 Stat. 858; 70 Stat. 721; Executive Orders 9830, Feb. 24, 1947; 10000, Sept. 16, 1948; 10242, May 8, 1951; 10422, Jan. 9, 1953; 10450, April 27, 1953; 10530, May 10, 1954; 10540, June 29, 1954; 10552, Aug. 10, 1954; 10556, Sept. 1, 1954; 10577, Nov. 22, 1954; 10590, Jan. 18, 1955; 10774, July 25, 1958; 10794, Dec. 10, 1958; 10800, Jan. 15, 1959; 10804, Feb. 12, 1959; 10826, June 25, 1959; 10835, Aug. 21, 1959; 10880, June 7, 1960; 10903, Jan. 9, 1961; 10925, Mar. 6, 1961; 10927, Mar. 18, 1961; 10973, Nov. 3, 1961; 10982, Dec. 25, 1961; 10987, Jan. 17, 1962; 10988, Jan. 17, 1962; 11073, Jan. 2, 1963; 11091, Feb. 26, 1963; 11103, Apr. 10, 1963; Independent Offices Appropriation Act, 1964.*)

No change in appropriation language is requested for fiscal year 1965 other than to indicate the total amount of appropriation requested, and to delete the limitation for performance of the duties imposed upon the Commission by the act of July 19, 1940 (Hatch Act), and the provision for special security guard services. Deletion of the limitation for Hatch Act work will eliminate the need for duplicate record keeping to comply with limitation. Special security guard services for the protection of confidential files are no longer necessary.

Comparative summary by activity

Activity	1964 authorized	1965 estimate	Changes (+ or −) 1965 compared with 1964
1 Recruiting and examining	$5,291,300 (5,405,000)	$5,355,000	−$50,000
2 Investigation of character and fitness for employment	2,728,900 (2,779,500)	2,600,000	−179,500
3 Inspections and classification audits	2,164,900 (2,205,000)	2,205,000	0
4 Administration of the retirement systems	2,651,300 (2,692,400)	2,692,000	−400
5 Developing programs and standards	1,559,300 (1,593,000)	1,593,000	0
6 Appellate functions of the Commission	800,000 (816,000)	816,000	0
7 Career development and training	354,800 (364,000)	364,000	0
8 Executive and administrative services	2,104,500 (2,145,500)	2,145,000	−500
Total personal services	17,655,000 (18,000,400)	17,770,000	−230,400
Other obligations	4,150,000 (4,175,600)	4,417,000	+241,400
Total program or estimate	21,805,000 (22,176,000)	22,187,000	+11,000
Average number of positions:			
Central office	1,486	1,479	−7
Regional offices	927	898	−29
Total	2,413	2,377	−36

NOTE.—Figures in parentheses are adjusted to reflect 1965 pay rates for comparability.

Comparative summary by object classification

	Object class	1964 authorized	1965 estimate	Fiscal year 1965 over (+) or under (−) fiscal year 1964
11	Personnel compensation	$17,655,000 (18,000,400)	$17,770,000	−$230,400
12	Personnel benefits	1,314,200 (1,339,800)	1,321,000	−18,800
21	Travel and transportation of persons	547,800	450,000	−97,800
22	Transportation of things	135,300	135,300	0
23	Rents, communications, and utility services	1,056,500	1,123,500	+67,000
24	Printing and reproduction	490,000	490,000	0
25	Other services	310,000	303,000	−7,000
26	Supplies and materials	225,000	225,000	0
31	Equipment:			
	Furniture and other equipment	71,200	71,200	0
	Mechanized filing equipment	0	165,000	+165,000
	Computer	0	133,000	+133,000
	Total obligations	21,805,000 (22,176,000)	22,187,000	+11,000

NOTE.—Figures in parentheses are adjusted to reflect 1965 pay rates for comparability.

Mr. THOMAS. You have a comparative summary by function on page 4. These are the dollars. You do not have a table giving the average number of positions in the central office; do you? The figure shown on page 2 is minus 7; 1,479 against 1,486.

REGIONAL OFFICES

How many regional offices do you have?

Mr. MACY. Ten regional offices.

Mr. THOMAS. Where are they located?

Mr. MACY. Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis, Dallas, Denver, Seattle, and San Francisco.

CHANGES IN SALARIES AND EXPENSES

The minus 36 at the bottom of the table on page 2 reflects the total reduction for salaries and expenses, 7 of these are in the central office and 29 are in the field offices. The table on page 3 shows a breakdown by object class.

Object 23 shows the increase for GSA costs in telecommunication. In object class 31, $165,000 is for the mechanized filing equipment, and $133,000 is for the computer. These increases in other objects are offset by reductions in personal services.

Mr. THOMAS. That is not complete. You have to add $90,000 more to that, do you not? Rents and utilities are up. This is all interesting information.

Mr. EVINS. I note there is an increase in Investigations of U.S. Citizens for Employment by International Organizations, of about $34,000.

Mr. MACY. That is right.

Mr. EVINS. Are all of these for the U.N.?

Mr. MACY. And other international organizations. This is an estimate based upon the information given to us by the Department of State concerning the number of appointments that those agencies will make of American citizens.

RECRUITING AND EXAMINING

Mr. EVINS. Going to activity 1, "Recruiting and examining," you had a total of 802 persons in this activity in fiscal year 1963. Average positions in fiscal year 1965 will be 754 and you are asking for $5,355,000.

Insert pages 4, 5, 6, 7, 8, and 9 in the record.

(The pages follow:)

Recruiting and examining

Functions	1963 actual		1964 authorized		1965 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
CSC examining operations:						
Conducting examinations	216	$1,357,984 (1,432,600)	191	$1,206,900 (1,231,900)	191	$1,231,900
Maintaining examination records	82	427,990 (451,500)	80	417,700 (427,000)	80	427,000
Referring qualified candidates	95	542,251 (572,000)	85	498,900 (510,000)	81	485,000
Subtotal, CSC examining operations	393	2,328,225 (2,456,100)	356	2,123,500 (2,168,900)	352	2,143,900
Supervising Civil Service Boards of Examiners	121	1,013,019 (1,068,700)	131	1,135,700 (1,159,500)	128	1,134,500
Informing the public of Federal employment opportunities	53	482,300 (508,800)	52	491,400 (502,400)	52	502,400
Answering inquiries	170	1,048,822 (1,106,400)	160	1,019,000 (1,041,000)	160	1,041,000
Guidance to agencies on Civil Service requirements	26	217,693 (229,700)	24	206,200 (210,400)	24	210,400
Providing veterans Federal employment service	22	212,471 (224,100)	21	211,600 (216,500)	21	216,500
Federal employment statistics program	17	110,195 (116,200)	17	103,900 (106,300)	17	106,300
Total, activity 1	802	5,412,725 (5,710,000)	761	5,291,300 (5,405,000)	754	5,355,000

NOTE.—Figures in parentheses above and in the following text are adjusted to reflect 1965 pay rates for comparability.

Summary workload table

Workloads	Fiscal year	On hand	Received	Processed	Canceled	Remaining	Unit cost
Applications processed	1963	59,830	668,409	464,382	200,729	63,128	$2.92 [1]($3.08)
	1964	63,128	695,400	500,000	201,928	56,600	2.41 [1](2.46)
	1965	56,600	725,400	519,700	211,500	50,800	2.37 2.37
Names certified	1963			318,708			1.70 [1](1.79)
	1964			308,500			1.62 [1](1.65)
	1965			300,000			1.62 1.62
Inquiries answered	1963			1,938,050			.54 [1](.57)
	1964			1,938,000			.53 [1](.54)
	1965			1,938,000			.54 .54

[1] Adjusted to reflect 1965 pay rates for comparability.

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table.

	1963 actual		1964 authorized		1965 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Central office	314	$2,177,904 (2,297,500)	299	$2,081,800 (2,126,500)	305	$2,173,000
Regional offices	488	3,234,821 (3,412,500)	462	3,209,500 (3,278,500)	449	3,182,000
Total, activity 1	802	5,412,725 (5,710,000)	761	5,291,300 (5,405,000)	754	5,355,000

NOTE.—Figures in parentheses are adjusted to reflect 1965 pay rates for comparability.

GENERAL STATEMENT

The Congress by the Civil Service Act and subsequent legislation has given the Commission the responsibility for developing and operating a merit system for filling the broad range of positions in the competitive service of the Federal Government.

The "Recruiting and examining" activity includes the functions of: (1) Conducting examinations in Commission offices; (2) organizing, training, and supervising boards of examiners in carrying out the examining processes that have been decentralized to boards of examiners; (3) drawing up a recruiting program designed to meet the agencies' personnel needs by planning, preparing, and conducting publicity to aid in attracting high-caliber persons, including superior college graduates, into the Federal service; (4) supplying information in response to inquiries from the general public, Members of Congress, and other interested persons concerning employment and employers in the Federal service; (5) guiding and assisting agencies in the administration of civil service requirements delegated to them in the area of recruiting, examining, and placement services; (6) providing general assistance and employment counseling service to veterans and veterans' organizations in connection with preference rights and benefits prescribed by the Veterans' Preference Act of 1944; and (7) operating the Federal employment statistics program.

The objective of the Commission's recruiting and examining program is to meet the employment needs of the Government with the best qualified citizens obtainable through open competitive examinations. The Commission accomplishes this objective through the examining and recruiting facilities of its own offices in Washington, D.C., and its 10 regional offices, and through boards of civil service examiners located in the various agencies throughout the country. To make the Government's overall recruiting activity effective in attracting the number and quality of persons needed, the Commission also has a major role in working with the agencies to keep the public informed on the kinds and locations of employment opportunities available in the Government and the attractions of work in the Federal service, and in developing and maintaining an effective work force.

Competitive examinations for employment in the Federal service are conducted by the Commission and its boards of examiners under guidelines and criteria established to assure that available manpower is secured effectively and economically when needed. These guidelines provide generally that examinations will be conducted by a Commission office where the positions involved are common to many agencies and where effective public relations or large-scale recruiting needs require this type of examination. Boards of examiners, on the other hand, are generally assigned responsibility for conducting examinations for occupations peculiar to their agencies or where they are the principal users in the labor market area in which they are located.

Fiscal year 1965 program

Funds requested for fiscal year 1965 are slightly less than the level authorized for 1964, at the 1965 pay rates. This request represents a normal Commission examining program that is designed to permit conducting examinations in those areas where there is the greatest need for new hires.

A reduction in total employment and in number of new hires, predicted for fiscal year 1965, is expected to have little effect on the volume of applications received and the examining workload in general. For various reasons, application receipts have been increasing regularly, and such increases are expected to continue. A constantly increasing labor market, yearly increases in high school and college graduates, automation and resultant changes in job requirements, all tend to generate the submission in larger numbers of applications for jobs with the Federal Government.

Federal employment level

Total Federal employment on June 30, 1963, was 2,527,960 of which 2,497,035 represents employment in the executive branch. Employment in the competitive service as of this same date was 2,164,164, between 85 percent and 86 percent of the total Federal figure.

The Commission's budget estimate assumes that during fiscal year 1964 employment will decrease, and that total employment will be generally lower in fiscal year 1964 than in fiscal year 1963. It is expected that employment will approximate 2,500,000 at the end of fiscal year 1964 and will continue at that level during fiscal year 1965.

Hiring needs

New hires in the competitive service result primarily from turnover in the staff engaged on continuing functions of the Government. This turnover is caused by resignations, dismissals, retirements, and deaths. Employees hired as replacements cover a great diversity of occupations and will be located in many thousands of Federal installations throughout the United States and overseas.

It is estimated that the new hire rate for fiscal year 1964 will average 14.4 percent per annum, and drop to 14 percent for fiscal year 1965. Applying these rates to the estimated average employment for the competitive service results in the following new hire estimate.

	Fiscal year 1964	Fiscal year 1965
Average employment in competitive service	2,158,000	2,151,000
Average new hire rate	×14.4	×14.0
Total new hires	311,000	301,000

The distribution of estimated new hires to be made in the Federal service is shown by the following table.

	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965
Noncompetitive reinstatements	60,337	58,300	56,400
New hires made by the Commission and its Boards of Examiners	238,015	233,100	225,600
New hires made directly by agencies	19,627	19,600	19,000
Total new hires	317,979	311,000	301,000

Noncompetitive reinstatements involve former Federal employees who are entitled to reemployment on the basis of previous service.

Investigations

Mr. Evins. You have investigations of character and fitness for employment. This is other than international and for the Government itself?

Mr. MACY. For Federal Government employees, on page 18 of our "Salaries and expenses" appropriation.

Mr. EVINS. You show a reduction of about 30 positions for 1965 for $2,600,000.

Mr. MACY. That is right. The reduction is a reflection of the reduced in-hiring rate in the Federal Government and the completion of the accelerated postmaster examinations that we have had in the past 2 years, and savings due to management efficiencies.

Mr. EVINS. Insert pages 18, 19, 20, 21, and 22 in the record.

(The pages follow:)

Investigation of character and fitness for employment

Functions	1963 actual		1964 authorized		1965 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Conducting national agency check and inquiry cases (N.A.C. & I.)	238	{$1,262,866 ($1,336,300)}	240	{$1,268,700 ($1,293,000)}	230	$1,220,000
Investigating and evaluating suitability cases resulting from N.A.C. & I.	27	{216,690 (229,300)}	29	{244,300 (248,700)}	27	234,700
Investigating and evaluating suitability cases resulting from employment applications and arrest records:						
Personally investigated cases	22	{171,754 (181,800)}	26	{208,000 (212,000)}	26	212,000
Cases investigated on basis of record and correspondence	28	{198,222 (209,800)}	27	{201,500 (205,100)}	27	205,100
Investigating veteran and nonveteran appeal cases	7	{56,520 (59,800)}	7	{60,500 (61,600)}	7	61,600
Investigating postmaster candidates	28	{220,868 (233,700)}	20	{158,200 (161,000)}	16	129,500
Investigating qualifications of candidates for high-level positions	5	{37,317 (39,500)}	5	{38,900 (39,600)}	5	39,600
Operating civil service investigative files	98	{498,988 (531,000)}	98	{521,800 (531,000)}	85	470,000
Evaluating agencies' security programs	2	{24,849 (26,300)}	2	{27,000 (27,500)}	2	27,500
Total, activity 2	455	{2,688,074 (2,847,500)}	454	{2,728,900 (2,779,500)}	425	2,600,000

NOTE.—Figures in parentheses above and in the following text are adjusted to reflect 1965 pay rates for comparability.

GENERAL STATEMENT

Investigative work under Executive Order 10450, as amended (security requirements for Government employment)

Under Executive Order 10450, the Commission is required to conduct investigations and perform other services which will enable agencies to comply with the provisions of the order. In addition, the information resulting from the investigation required under section 3a of the order provides economical and effective means of determining the suitability of applicants for and appointees to Federal positions. These services include the conduct of national agency check and inquiries, limited suitability investigations when a national agency check and inquiry case develops adverse information, and the maintenance of a security investigations index file. In addition, Executive Order 10550, an amendment to Executive Order 10450, requires the Commission to establish a control to insure prompt evaluation by the agencies with respect to full field investigations.

This workload is not controllable, since it is either specifically required by the Executive order or arises as a byproduct. The national agency check and

inquiry cases arise as a result of appointments to positions in the Federal service.

Other personal investigations.—The Commission also conducts personal investigations in several other types of cases as required by title 5, United States Code (preference of veterans in Government employment), section 851, etc., Executive Order 10988, and the Civil Service Rules and Regulations: (1) Appeals from veterans and nonveterans; (2) qualification investigations of applicants for top level positions: (3) candidates for postmaster appointments; and (4) other cases arising from applications and arrest records. The workload in these functions, also, is largely uncontrollable.

Effect of management action taken during fiscal year 1963.—The budget request for this activity continues to decrease. For example: average expenditures during fiscal years 1961 and 1962 (adjusted to 1965 pay rates) were $3,405,000 per year. The 1965 budget request of $2,600,000 is $805,000 lower than this average and reflects the successive decreases in fiscal years 1963 and 1964. To a small extent the reduction has been caused by lower receipts. However, the major reductions have been achieved by design and not by accident. The most notable areas of savings are as follows:

1. Area centers were established for processing N.A.C. & I. cases at 3 central locations rather than at 11 different geographic locations. This produced a saving of around $200,000, and savings would have been greater if workload volume had not decreased.

2. The conversion rate from N.A.C. & I. to personal investigation on suitability grounds has been reduced from the former level of over 3 percent to less than 1 percent. If the 3-percent rate had continued, the 1965 budget request for this function would have been approximately $400,000 greater.

3. Substantial savings have also been achieved in the function "Personally investigated cases resulting from employment applications and arrest records" by a determined effort to be sure that personal investigation is not conducted if the case can be resolved on the basis of records or correspondence.

Reimbursable full field investigations.—The Commission, under existing public laws and Executive orders, conducts full field investigations on a reimbursable basis for all agencies except those which conduct their own by special agreement with the Commission, or by special legislation. A full field investigation consists of inquiries by personal contact concerning the experience, habits, and conduct of an individual to determine his character and reputation, loyalty to the United States, and general fitness for employment in a position of critical importance from the standpoint of the national security. These investigations are clearly distinct from the less extensive national agency check and inquiry investigations of persons appointed to nonsensitive positions. Responsibility for much of the full field investigation work was transferred from the Federal Bureau of Investigation to the Commission in 1952 by title 22, United States Code, section 1661. Since that time the Commission has been made responsible for an increasing number of these investigations, so that at the present time it is the major investigative agency insofar as personal investigations are concerned. No funds are being requested for this work since it is done on a reimbursable basis at the request of the agencies and is financed through a revolving fund.

Inspections

Mr. Evins. Turning to activity 3, this is "Inspections." You have an average position load of 244 in fiscal year 1963 and 1964 against 221 for 1965. Here again you have a reduction. The amount of funds requested is $2,205,000 for 1965.

Place this chart on page 37 and pages 38 and 39 in the record. (The pages follow:)

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table.

Function	1963 actual		1964 authorized		1965 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Inspecting agency personnel operations:						
Central office	81	$782,861 (828,000)	75	$772,800 (786,500)	75	$786,500
Regional offices	163	1,447,289 (1,530,300)	146	1,392,100 (1,418,500)	146	1,418,500
Total, activity 3	244	2,230,150 (2,358,300)	221	2,164,900 (2,205,000)	221	2,205,000

NOTE.—Figures in parentheses are adjusted to reflect 1965 pay rates for comparability.

GENERAL STATEMENT

This activity includes the following principal functions: (1) Inspecting to determine agency compliance with statutory and regulatory provisions (including the Classification Act of 1949, as amended), and ordering corrective action in cases of noncompliance; (2) evaluating agency personnel management in terms of accomplishment of agency mission and adherence to public policy; (3) assisting agencies in improving their personnel management in light of legislative and executive direction and intent, and in conformance with the objective of attaining a wholly effective personnel system throughout the Government; and (4) recommending classification of positions in the three highest grades provided for in the Classification Act of 1949, as amended, and at similar salary levels provided by other legislation, and classifying hearing examiner positions under the provisions of the Administrative Procedure Act.

The Civil Service Commission has been designated by Executive Order 9830 as the central source of leadership and guidance, for personnel management matters in the Federal Government. As new features are added to the Federal personnel program through legislative or executive action, there is an increase in requests, from agencies and individuals, upon Commission offices for technical advice and assistance. The Commission's response to these requests is designed to assure that personnel operations are carried out effectively and efficiently.

Beginning in fiscal year 1962 and continuing through subsequent years, the Commission made important revisions in program emphasis. Inspections are more comprehensive and delve into such areas as manpower utilization, equal employment opportunity, employee conduct and ethics, and employee-management cooperation.

Funds requested for fiscal year 1965 are at the same level as authorized for 1964, but at the 1965 pay rates.

ADMINISTRATION OF THE RETIREMENT SYSTEM

Mr. EVINS. Turn to activity 4, retirement; 427 average positions in 1963 against 418 for 1964 and 1965; again a number of reductions in personnel. There is a funding requirement of $2,692,000, the same as last year on a comparable basis. Insert pages 45, 46, and 47 in the record.

(The pages referred to follow:)

Administration of the retirement systems

Functions	1963 actual		1964 authorized		1965 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Adjudicating annuity and death claims	117	$753,478 (789,300)	113	$745,000 (756,500)	115	$776,800
Adjudicating refund claims	24	124,144 (130,700)	24	132,200 (133,600)	24	133,600
Adjudicating claims for deposit	14	79,793 (83,800)	14	77,900 (79,100)	14	79,100
Answering inquiries	49	305,931 (320,600)	47	304,700 (309,400)	47	309,400
Maintaining the monthly benefit payment roll	66	368,797 (385,900)	63	348,300 (353,800)	64	357,800
Accounting for retirement fund transactions	27	161,335 (169,000)	27	166,400 (169,000)	27	169,000
Maintaining files of retirement records	51	215,788 (226,100)	51	222,600 (226,100	51	226,100
Conducting actuarial and statistical studies	12	89,793 (94,200)	15	116,500 (118,500)	12	94,200
Performing medical work	67	532,222 (558,500)	64	537,700 (546,400)	64	546,000
Total, activity 4	427	2,631,281 (2,758,100)	418	2,651,300 (2,692,400)	418	2,692,000

NOTE.—Figures in parenthesis above and in the following text are adjusted to reflect 1965 pay rates for comparability.

Summary workload table

Workload items	Fiscal year	On hand	Received	Processed	Canceled	Remaining	Unit cost
Annuity and death claims	1963	10,204	98,158	96,166	290	11,906	$7.84 ([1] $8.21)
	1964	11,906	99,000	98,800	206	11,900	7.54 ([1] 7.66)
	1965	11,900	101,500	102,100	200	11,100	7.61
Refund claims	1963	3,292	135,761	137,005	----------	2,048	.91 ([1] .95)
	1964	2,048	140,800	140,600	----------	2,248	.94 ([1] .95)
	1965	2,248	140,800	140,800	----------	2,248	.95
Claims for deposit	1963	1,651	26,708	25,634	1,459	1,266	3.11 ([1] 3.27)
	1964	1,266	25,700	24,200	1,466	1,300	3.22 ([1] 3.27)
	1965	1,300	25,700	24,200	1,500	1,300	3.27
Inquiries	1963	3,202	238,535	238,796	411	2,530	1.28 ([1] 1.34)
	1964	2,530	236,800	236,200	430	2,700	1.29 ([1] 1.31)
	1965	2,700	236,800	236,400	400	2,700	1.31
Monthly benefit payment roll	1963	----------	----------	623,772	----------	----------	.59 ([1] .62)
	1964	----------	----------	664,000	----------	----------	.52 ([1] .53)
	1965	----------	----------	705,500	----------	----------	.51

[1] Adjusted to 1965 pay scale for comparability.

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table.

	1963 actual		1964 authorized		1965 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Central office	402	$2,408,454 (2,523,957)	396	$2,433,000 (2,470,400)	396	$2,470,000
Regional offices	25	222,827 (234,143)	22	218,300 (222,000)	22	222,000
Total, activity 4	427	2,631,281 (2,758,100)	418	2,651,300 (2,692,400)	418	2,692,000

GENERAL STATEMENT

This activity provides for the administration of the Civil Service Retirement Act, the Panama Canal Construction Annuity Act, and the Lighthouse Service Widows' Benefit Act. Workloads are not controllable because they result from the exercise of legal rights by employees, retirees, and other beneficiaries under the retirement laws.

The work performed in administering the Civil Service Retirement Act consists largely of (1) adjudicating annuity and death claims; (2) adjudicating refund claims of former employees for the payment of amounts to their credit in the fund; (3) adjudicating claims for deposit covering creditable service for retirement purposes; (4) answering inquiries relative to these matters; (5) maintaining all necessary accounting and control records to properly administer the fiscal activities of the fund (including receipts from employees and Government contributions, payments to annuitants, survivors, and other claimants, and maintaining individual retirement record accounts); and (6) conducting actuarial and statistical studies.

The administration of the Panama Canal Construction Annuity Act and the Lighthouse Service Widows' Benefit Act requires the Commission to adjudicate and pay claims to persons entitled to benefits under these acts.

Total requirements for this activity in fiscal year 1965 are estimated to be at the same level as authorized for fiscal year 1964.

Mr. THOMAS. Is that retirement rate slowing down, Mr. Chairman?

Mr. MACY. It has slowed down slightly in the past 2 years.

Mr. THOMAS. Did that pay increase slow them down somewhat?

Mr. MACY. That may have been one of the factors.

Mr. THOMAS. A few years before the increase everybody was getting out.

Mr. MACY. The reduction is relatively small.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

DEVELOPING PROGRAMS AND STANDARDS

Mr. EVINS. We will return to "Activity 5, developing programs and standards." Funding requirement is the same and personnel was reduced from 168 in 1963 to 160 for 1964 and 1965. Insert pages 56 and 57 in the record.

(The pages referred to follow:)

Developing programs and standards

Functions	1963 actual		1964 authorized		1965 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Providing leadership and guidance in strengthening the Federal personnel programs	38	{ $375,970 (403,470) }	38	{ $391,400 (400,000) }	38	$400,000
Maintaining the Commission's system of directives and instructions	42	{ 390,200 (418,741) }	35	{ 350,400 (358,100) }	35	358,100
Establishing and maintaining standards	44	{ 422,972 (453,910) }	39	{ 401,600 (410,400) }	39	410,400
Providing selection methods and tests to measure qualifications	44	{ 369,120 (395,779) }	48	{ 415,900 424,500) }	48	424,500
Total, activity 5	168	{ 1,558,262 (1,671,900) }	160	{ 1,559,300 (1,593,000) }	160	1,593,000

NOTE.—Figures in parentheses above and in the following text are adjusted to reflect 1965 pay rates for comparability.

GENERAL STATEMENT

The principal functions of this activity are to provide necessary policy development, standard setting, and research services on all elements of the Federal personnel program so that the Civil Service Commission can respond to many varied demands made upon it—demands arising from its statutory responsibilities, from Presidential directives, from court decisions, from legislative proposals, from Federal departments and employee groups, and from other sources. This includes (1) providing leadership and guidance in strengthening Federal personnel programs in order to be responsive to changing conditions and to improve Government-wide personnel practices; (2) maintaining and initiating improvements in the Commission's system for issuing regulations and instructions by which its programs and policies are carried out; (3) establishing and maintaining standards needed to evaluate candidates for positions and to classify positions under the Classification Act; and (4) providing selection methods and tests for measuring the qualifications of individuals and to improve such selection devices.

These are continuing responsibilities which give direction and purpose to improving governmental personnel administration both at home and abroad. The personnel programs, instructions, tests, and standards developed under this activity are for the use and guidance of administrators and personnel officers throughout the entire governmental personnel system.

During fiscal year 1963, additional functions were added under this activity, which also showed an increasingly heavy workload in practically all phases. In spite of this increased workload, operations for 1964 have been programed below the 1963 level. This is consistent with the general reduction in staff in all major activities.

Mr. EVINS. You should pretty much have your standards developed by now.

Mr. MACY. No, indeed, we——

Mr. THOMAS. We will never get those standards set.

Mr. MACY. The conditions continue to change requiring revisions in standards, or new job standards.

APPELLATE FUNCTIONS

Mr. EVINS. Activity 6, "Appellate functions." Personnel is reduced from 96 in 1963 to 85 for 1964 and 1965. Funding requirement for 1965 is $816,000.

Insert pages 71 through 74 in the record.

(The pages referred to follow:)

Appellate functions of the Commission

Functions	1963 actual		1964 authorized		1965 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Veteran and nonveteran (part 22B) appeals	40	$360,647 (382,995)	33	$325,300 (331,200)	33	$331,200
Adverse actions (part 22C) appeals	4	33,208 (35,264)	3	24,900 (25,400)	3	25,400
Reduction-in-force appeals	10	93,419 (99,226)	9	86,400 (87,700)	9	87,700
Classification appeals	18	167,585 (177,959)	17	166,100 (169,500)	17	169,500
Suitability appeals	7	50,653 (53,788)	6	47,200 (48,600)	6	48,600
Performance rating appeals	3	23,626 (25,088)	3	23,900 (24,400)	3	24,400
All other appeals	7	58,018 (61,609)	6	52,100 (53,500)	6	53,500
Prohibited political activity cases	7	67,022 (71,171)	8	74,100 (75,700)	8	75,700
Total, activity 6	96	854,178 (907,100)	85	800,000 (816,000)	85	816,000

NOTE.—Figures in parentheses above and in the following text are adjusted to reflect 1965 rates for comparability.

Summary workload table

Workload items	Fiscal year	On hand	Received	Processed	Canceled	Remaining	Unit cost
Veteran and nonveteran (part 22B) appeals	1963	364	2,104	1,742	389	337	$207 [1] ($220)
	1964	337	2,100	1,750	360	327	186 [1] (190)
	1965	327	2,100	1,750	360	317	190
Adverse actions (part 22C) appeals	1963	51	568	528	64	27	63 [1] (67)
	1964	27	450	415	40	22	60 [1] (61)
	1965	22	450	415	40	17	61
Reduction-in-force appeals	1963	197	1,278	1,034	223	218	90 [1] (96)
	1964	218	1,250	1,090	200	178	79 [1] (81)
	1965	178	1,250	1,090	200	138	81
Classification appeals	1963	292	1,489	1,245	290	246	135 [1] (142)
	1964	246	1,450	1,200	250	246	139 [1] (142)
	1965	246	1,450	1,200	250	246	142
Suitability appeals	1963	103	715	747	15	56	68 [1] (72)
	1964	56	700	700	15	41	68 [1] (70)
	1965	41	700	700	10	31	70
Performance rating appeals	1963	29	100	80	16	33	295 [1] (313)
	1964	33	100	85	16	32	281 [1] (287)
	1965	32	100	85	16	31	287
All other appeals	1963	104	651	645	17	93	90 [1] (95)
	1964	93	600	600	10	83	86 [1] (90)
	1965	83	600	600	10	73	90
Prohibited political activity cases	1963	43	144	139	----	48	482 [1] (512)
	1964	48	150	150	----	48	494 [1] (505)
	1965	48	155	150	----	53	505

[1] Adjusted to 1965 pay scale for comparability

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table:

	1963, actual		1964, authorized		1965, estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Central office	56	$507,424 (538,862)	50	$484,800 (494,500)	50	$494,500
Regional offices	40	346,754 (368,238)	35	315,200 (321,500)	35	321,500
Total, activity 6	96	$854,178 (907,100)	85	800,000 (816,000)	85	816,000

GENERAL STATEMENT

This activity consists of the following appellate functions: (1) Processing appeals submitted in accordance with laws, rules, and regulations administered by the Commission; (2) administering the political activity statutes; and (3) rendering advice on such matters to agencies, individuals, and their representatives. Workloads in this activity are not controllable since they arise from the exercise of appeal rights granted by law or regulations.

As a result of significantly lower than estimated receipts of appeals experienced during 1963, certain organizational changes coupled with a reduction in manpower assigned have been made to effect economies in the appellate functions. These changes are reflected in reduced unit costs estimated in fiscal years 1964 and 1965 from 1963 experience in most types of appeals.

Funds requested for 1965 are at the same level as authorized for 1964.

APPEALS

Mr. EVINS. You are still getting a lot of appeals on cases?

Mr. MACY. Yes, we are. It has not been rising as much in recent years.

Mr. EVINS. How long does it take from the time an employee makes an appeal until he gets a final decision?

Mr. IRONS. It is not quite as simply answered as that because of the various levels of appeal. After he has exhausted his appeals to the agency he is entitled to have an appeal beyond that. Our goal is a 35-day period, and we usually reach it.

He is also entitled to appeal to the Board of Appeals and Review. That time normally will run a little longer because those are the more involved cases.

Mr. BOLAND. Have you broken down the appeals for veterans and nonveterans or have you combined them? I refer to page 72.

Mr. MACY. We have combined them, Mr. Boland. Since July 1, 1962, veterans and nonveterans have been under the same provision. We do have a breakdown, however.

Mr. BOLAND. I was wondering what the workload has meant to the Civil Service Commission with respect to nonveterans.

Mr. MACY. Nonveterans are running about one to every two veterans. In making our estimate for 1965 we are assuming we will process 1,200 veteran appeals and 550 nonveteran appeals.

PLACEMENT MADE BY AGENCIES

Mr. THOMAS. Mr. Chairman, what part of your placements are made now by the agencies themselves? Your new-hire rate will be 14 percent out of the 2.5 million total Federal civilian employment. How many placements do you plan to make this year?

Mr. MACY. About 233,000 new appointments.

Mr. THOMAS. 233,000 new appointments?

Mr. MACY. That is right.

Mr. THOMAS. How many will the agencies themselves make without any direct help from the Civil Service Commission?

The next step is to consolidate three of your bureaus.

Mr. MACY. If that is your intention I have no answer at all.

Mr. THOMAS. Go ahead.

Mr. MACY. The agency direct hires would be 19,000 where there are not——

Mr. THOMAS. That can't be the right answer.

Mr. MACY. No; out of——

Mr. THOMAS. About 190,000, about 75 or 80 percent of the 233,000 would be more like it.

Mr. MACY. Out of the 233,000, boards of civil service examiners would do approximately 197,000, but these are extensions of the Commission within the agency, made up of agency——

Mr. THOMAS. They are not your boards. They are boards belonging to the Post Office Department and other agencies.

Mr. MACY. They belong to the Civil Service Commission, manned by personnel of the agencies they serve.

Mr. THOMAS. Who pays them?

Mr. MACY. Paid out of the appropriation of the agency which employs them.

Mr. THOMAS. Whoever pays them, that is who they belong to.

Mr. MACY. But they operate under rules and standards applied by the Civil Service Commission.

Mr. THOMAS. For all practical purposes they are Post Office or other agency employees. You cannot fire them, can you?

Mr. MACY. We pass on their qualifications as board members.

Mr. THOMAS. I am talking about firing. You don't pay them.

Mr. MACY. We cannot fire them from the Post Office Department or any other department but we can have them moved off the board.

Mr. THOMAS. And you cannot fire them, so they are not your employees.

Mr. MACY. We can move them out of our function. We have authority under the Civil Service Act of 1883 to remove them from the board.

Mr. THOMAS. How many of those 233,000 will they hire, 180,000?

Mr. MACY. The boards of civil service examiners will examine, and from those examinations 197,000 placements will be made. The balance of placements will be from examinations conducted directly by the Civil Service Commission.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

JURISDICTION OVER BOARD MEMBERSHIP

Mr. JONAS. There is one other question I wanted cleared up. I understand these are post office employees and actually the Post Office Department selects the membership of the board; does it not?

Mr. MACY. Agencies nominate their people for the board activities subject to approval by the Civil Service Commission.

Mr. JONAS. Have you ever rejected any of their nominations?

Mr. MACY. We have not only rejected them, but we have asked that changes be made in personnel when they do not appear to be adequately performing the civil service function at a board, or where examinations are not conducted properly or the giving of tests is not adequately monitored.

We audit these boards. Part of the money in activity 1 is for the audit of civil service operations as performed by these boards. We maintain close and continuing supervision of this activity.

Mr. JONAS. By and large the truth of the matter is that the Post Office Department or other agency selects the membership of the boards from among its own personnel; is that right?

Mr. MACY. Agencies select personnel for civil service boards subject to the Commission's approval.

Mr. THOMAS. And pays them?

Mr. JONAS. Yes.

Mr. BOLAND. That is a good question Mr. Jonas asked with respect to supervising these boards. How constant is your contact with them?

Mr. MACY. There is an audit at least annually of the board and members of the Commission's staff make other supervisory visits as required by the size and complexity of the board's activity. We review the appointments made through the examining process that they conduct. If you turn to activity 1, page 4, "Supervising civil service boards of examiners," you will see we have 128 positions and $1,134,000 for supervision of the 800 to 900 boards of examiners located within the departments and agencies, which on delegation from the Commission conduct the Commission's examinations, and so forth.

Mr. BOLAND. You have asked that some of these members be removed and this has been done?

Mr. IRONS. I have personally caused two high level board members to be removed from a board from one of the departments of Government.

Mr. MACY. These were handled personally by the executive director—most problems of this nature are handled by our field personnel operating out of our regional offices.

Mr. WILLIAMS. There were 876 active boards as of June 30, 1963; each is visited an average of 3 to 4 times in a year. That is pretty constant supervision.

Mr. BOLAND. That is very good.

Mr. OSTERTAG. Why is the arrangement the way it is? What justification is there for this? You say you have supervision, they come under you, and yet you do not compensate them and do not appoint them.

Is it your feeling this should be more directly under Civil Service?

Mr. MACY. No; the trend through the years has been to place the examining activity as close to the operations of a particular agency as possible. As Government has enlarged the number of boards has increased.

The feeling is that if it is closely related to the operations the standards and use of the examining process can fit more completely into the needs of that operation but under the supervision of the Civil Service Commission.

The original statute back in 1883 contemplated that the bulk of the examining would be performed by agencies through boards of exam-

iners. At that time the customs service and the postal service were the two principal employers. The first boards were established in the customhouse and the post office in New York for the examination of candidates for positions in those offices.

Mr. OSTERTAG. Does the Civil Service Commission lay down any criteria or requirements under which the board functions?

Mr. MACY. Yes. We lay down the entire requirements. We provide the tests. We establish the procedure through which the tests are rated and the registers constructed. We specify the certification process involved. Those are the requirements against which we conduct the audit.

The honorable chairman is correct in saying they are employees of the department or agency involved, but they very decidedly carry out instructions of the Civil Service Commission. They are supervised by experienced examining people from the civil service regional or central office, and their records are fully audited by the Civil Service Commission.

BOARD MEMBERS REMOVED BY THE COMMISSION

Mr. JONAS. I wish you would put in the record at this point a statement showing how many board members the Civil Service Commission has removed over a period of 12 months, or during 1 fiscal year.

Mr. MACY. We do not have it in the data at hand, but we will supply a statement for the record.

(The information supplied follows:)

Information as to the number of actual removals is not available. It would be small because in nearly all instances when the audit of the board's operations shows them to be deficient, or suffering because of the inability of board members to devote the necessary time to the work, arrangements are usually worked out amicably with the agency for changes or additions in the board membership. The qualifications of persons proposed for membership on the board are reviewed for the work in advance by the Commission's staff. In the case of board chairman an interview is also conducted, and, in the case of executive secretarys a field investigation of his qualifications is also made before his designation to the board is approved.

COMMISSION SUPERVISION OF BOARDS

Mr. JONAS. Also will you tell me the philosophy under which the Civil Service Commission is alleged to be able to do a better job of supervising these boards than the agencies themselves.

Mr. MACY. Under the statute this is a Civil Service function. It would be necessary to amend the statute to have the agency do it for itself.

Mr. JONAS. I didn't mean that. I referred to the audit. What can you accomplish by going around after the fact is accomplished and looking at the records? What does that amount to?

Mr. MACY. We maintain constant supervision of these boards. The staff checks on their work throughout the year through frequent contacts and visits. The annual audit is a cumulation of all these supervisory contacts and amounts to a complete review of the examining operations that are conducted by the board. The alternative to this method of operation would be for the Civil Service Commission to establish many more offices of its own——

Mr. JONAS. The reason I ask these questions is this: I have had a considerable amount of criticism of the operation of several of these boards on the theory that they are subservient to the regional office of the Post Office Department and follow its instructions and directives rather than those of the Civil Service Commission.

Mr. MACY. I would be very much interested in investigating any complaints of that kind because that clearly would be contrary to the required method of operation.

Mr. THOMAS. Mr. Chairman, we have an old rule of law—a servant cannot have two masters. We have learned through long and hard experience that the top master is the paymaster. If the Post Office Department or another agency pays your people you had better take another look at them or you will find they will be working a little more for the Post Office Department than they will be working for you.

Mr. MACY. We feel we are taking a continuing look at them. Where there are violations correction is made. I am interested in hearing these comments about improper operation because I do not believe we have had any recent indication of this from our audits.

Mr. THOMAS. There should not be too much ground for conflict, but if it does come up you might come out the low end of the horn.

POST OFFICE BOARDS

Mr. IRONS. Post office boards are limited to the examinations of clerks and carriers.

Mr. BOLAND. That is right. This is not on promotions.

Mr. JONAS. Does not their jurisdiction cover promotions, too.

Mr. MACY. Promotions are on their own motion, anyway.

Mr. BOLAND. That is why I do not think it is the most important. It is important, of course, because you need correct information to conduct the examinations properly and be sure they are monitored properly. However, in the long run all this board does is to supervise clerk and carrier examinations and nothing else. That is all.

The big problem comes with promotions of supervisors which is handled exclusively and totally by the Post Office Department.

Mr. MACY. That is their internal operation.

Mr. BOLAND. Off the record.

(Discussion held off the record.)

Mr. IRONS. We have followed very carefully the operation of the post office boards as they apply to the entrance of citizens in the clerk and carrier positions. I can say we have been extremely pleased with the operation of the post office in this area. They have followed our instructions precisely.

Mr. BOLAND. It is well that the Civil Service Commission does supervise these examinations. I think it makes for a better overall system.

Mr. EVINS. Uniformity of standards, lack of duplication.

Mr. BOLAND. That is right.

Mr. MACY. By the same token, in the naval shipyards, in an ordnance activity, the boards there are concerned with the examinations that lead to the appointment of individuals for the special work which has to be performed in that installation.

The Civil Service Commission's examinations for the departments and agencies across the board are for certain common types of occupations. We conduct the Federal service entrance examination, the primary entry route for college graduates. All agencies are using that source for manning their career jobs at the college graduate level.

Career Development and Training

Mr. Evins. That ties into the next title, "Career development and training."

Place in the record pages 82, 83, 84, 85, 86, and 87.

(The pages follow:)

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table.

Function	1963 actual		1964 authorized		1965 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Administering the career development and training program:						
Central office	22	{ $213,608 (231,300) }	22	{ $225,200 (231,700) }	22	$231,700
Regional offices	11	{ 124,765 (132,300) }	11	{ 129,600 (132,300) }	11	132,300
Total, activity 7	33	{ 338,373 (363,600) }	33	{ 354,800 (364,000) }	33	364,000

Note.—Figures in parentheses are adjusted to reflect 1965 pay rates for comparability.

GENERAL STATEMENT

The activity of "Career development and training" is budgeted separately for the first time for fiscal year 1965. It was previously carried in the Commission's budget estimates as an item under activity 3, "Inspections." The emergence of this separate activity reflects the growing importance and specialized attention to the functions of career development, training, and incentive awards over the last several years. While expenses for these functions have not significantly increased during this period, they have been concentrated in activities managed by the Office of Career Development, which was established in 1960. Also under jurisdiction of this Office, since January 1962, are the employee development officers, one in each region, to whom are assigned full time the training and career development activities of the regions, such activities having been performed in the past by various personnel usually budgeted in activity 3. In addition, budgetary and program management problems stemming from increased cost-shared training activities reimbursed by agencies under section 8 of the Government Employees Training Act are managed more efficiently through the Office of Career Development.

Scope of activities

This activity includes (1) a program to improve agency and departmental training programs by analysis of agency training activities, with improvement obtained through consultation and technical guidance; (2) the coordination of training programs between and among agencies to achieve full utilization and to avoid duplication; (3) the determination of interagency training needs which can best be met through cost-shared training under section 8 of the Government Employees Training Act; (4) the training of agency personnel in personnel programs related to laws or regulations for which the Commission has enforcement responsibility; (5) the promotion and improvement of the incentive awards program authorized by Public Law 83-763; and (6) the management of a roster of career executives to facilitate interagency placement and utilization.

The enactment in 1958 of the Government Employees Training Act, Public Law 85–507, equipped with the Federal Government with policy, authority, and guidelines to meet the needs for improved performance through training of its career employees in a rapidly changing work environment. Training in new management skills, such as automatic data processing, for new duties caused by automation, and for new tasks created by rapidly changing technology has been encouraged and is increasing. The Commission has attempted to keep pace by developing a special competence in its staff, both at headquarters and in the regions, to be able to serve effectively as a clearinghouse for practices and methods.

In addition, the opportunities for the intermeshing of training needs and programs created by the act have been recognized. Collaborating closely with agencies in the development of their training plans and programs, the Commission has been successful in encouraging agencies to make their training available to other agencies, when it would not be feasible for such other agencies to establish specific programs, either because of lack of expert knowledge or because their needs could best be met by pooling of resources. A concrete manifestation of this effort is the publication of interagency training bulletins at the Commission's central office and in each region.

In direct consultation with agencies, training needs are identified which cannot be suitably handled by a single agency, but which can be met through a joint effort. The Commission staff in these circumstances develops a program directed to the joint purposes and conducts it on a cost-shared basis for the participating agencies.

The Commission continues actively to encourage the effective and discriminating application of the authority of the Government Employees Incentive Awards Act to the improvement of performance through motivation by honorary and cash awards. A staff of five is assigned to this function in fiscal year 1964, about half of that originally assigned to it in 1956, immediately after the law was enacted. In addition, staff in this functional area now has the responsibility to advise agencies on effective operating relationships between the incentive awards program and the step increases for superior performance authorized in recent pay legislation.

Budgetary requirements

Funds requested for fiscal year 1965 are at the same level as experienced for fiscal year 1963 and as authorized for 1964, adjusted to reflect the effect of the second phase of Public Law 87–793 on a full-year basis.

Cost-shared training

The following is a report of the Commission's activities in the area of reimbursable training. Under the authority of section 8 of the Government Employees Training Act, the Commission has increased significantly the training it conducts on a reimbursable basis. Through consultation with agencies, needs are determined and plans made for the conduct of programs which can be conducted on an interagency basis. Scarce talents are thus used more effectively, full utilization of training programs is accomplished, and governmental training resources are used to the maximum, as required by the act.

During fiscal year 1963, a total of 182 training sessions, involving 90 separate courses, were conducted by the Commission on a cost-shared basis. A total of over 9,700 employees, from 58 different Government agencies, participated in these programs. Training conducted by the Commission during 1963 in the Washington metropolitan area had a total cost of approximately $229,000, including salaries, services, publications, and other expenses. In the regions the cost was $184,000 for the same period. During fiscal year 1964, it is estimated that the comparable figures will be, respectively, $300,000 and $288,000.

In addition to the above training, during fiscal year 1964 an executive seminar center will be operated at the Merchant Marine Academy at Kings Point, N.Y., at a total cost of $205,000, including in this instance the cost of board and room furnished at the site. At the center there will be 15 training sessions of 2 weeks each. At each session there will be 37 participants, for a total of 555 trainees during the year. All of the major departments and agencies are participating in this program.

Since cost-shared programs are developed in response to needs of agencies with their collaboration, specific needs have not yet been determined for fiscal year 1965. It is assumed, however, depending on the continued utility of existing programs, that minimally the same level of activity will continue. Estimates for fiscal year 1965, therefore, are projected at the same level as for fiscal year 1964

(adjusted to reflect effect of increased pay rates). No funds are being requested for this phase of the activity, since the training is on a cost-shared basis and financed through reimbursements from the participating agencies.

Mr. EVINS. Average positions were 33 for 1963–64 and the same for 1965, and the funding is the same, $364,000. There is some change in procedure. You state the activity of career development is budgeted separately for the first time in fiscal year 1965. It was previously carried in the Commission's budget under inspections.

The emergence of this separate activity reflects the growing importance and specialized attention to functions of career development.

Mr. MACY. That is right, Mr. Evins. It is important that we point out this is the first year we have had this as a separate activity. We felt it would be helpful to you as well as to us to identify this as an activity.

It has come into its own, particularly since the passage of the Government Employees Training Act in 1958. We are proud of this as a Commission contribution to the training and advancement of people within the career service.

Mr. THOMAS. You might give us more specific detail. You have a nice two or three page description.

Mr. EVINS. You say (reading):

This activity includes a program to improve agency and departmental training programs; (2) coordinate training programs between and among the agencies to achieve full utilization and avoid duplication; (3) determination of interagency training needs which can best be met through cost-shared training.

I wanted to ask you about this.

Then there is (4) (reading):

(4) The training of agency personnel in personnel programs related to laws or regulations for which the Commission has enforcement responsibility; (5) the promotion and improvement of incentive awards.

How do the agencies share in this cost?

Mr. MACY. The process on that is this: The Commission, working with the agencies, identifies a particular area needing training, such as training in automatic data processing.

Then the Commission, with the advice of the agencies, will set up a training program, usually one of limited duration, and the program will be partially funded by tuition payments made by the departments and agencies using this program.

TRAINING COURSES

Mr. THOMAS. Let us start at the beginning. You have 33 employees in this activity—11 in the field and 22 in the District of Columbia assigned to the Commission's office.

You have about 10,000 students or something less. How are these courses organized? Where are they held? When are they held? What courses of instructions do you have? Who does the instruction? Where do the instructors come from and who pays for it? Let us get that in the record.

Mr. MACY. All right, we will submit a statement for the record.

(The material supplied follows:)

The Civil Service Commission has a personnel management curriculum with course offerings in: General personnel management, classification, staffing and placement, career development, employee relations, processing personnel actions,

and Government retirement and insurance programs. In fiscal year 1963, the Commission conducted a total of 206 training sessions in personnel management; 25 of these sessions being conducted in Washington by the central office and 181 conducted in the field by the 10 regional offices. These courses were attended by 8,770 employees; 1,200 in Washington and 7,570 in the field.

In addition to the Commission's curriculum in personnel management, it also offers a number of courses to meet Government-wide training needs which are not being met fully or satisfactorily through other sources. For example, considerable training has been needed to provide managers with an understanding of automatic data processing and how it can be used most efficiently. In fiscal year 1963, 1,459 agency personnel attended 26 Commission conducted training sessions on automatic data processing alone, and 593 attended 10 course sessions in other areas of the management sciences such as operations research. Other courses conducted by the Commission may be classified broadly as falling into three categories: Management intern and entry level training, middle management training and executive training. A total of 171 course sessions were conducted in non-personnel-management courses during fiscal year 1963; 88 in Washington and 83 in the field. These courses were attended by 8,746 employees; 4,208 in Washington and 4,538 in the field. Commission courses are spread quite evenly over the period September–June.

Of 377 training sessions conducted by the Commission during 1963, 195 sessions were financed by funds appropriated to the Commission, and 182 sessions were financed through agency reimbursements of costs to the Commission. The total cost of reimbursable training for 9,736 agency participants was $413,555. This amounted to an average course cost of $42.40 per participant, or 94 cents per course-hour per participant. This represents a 22-percent decrease in cost from the $1.20 per course-hour per participant in fiscal year 1962.

Faculties for Commission courses are drawn from Government, universities, and private industry. Government lecturers, normally experts on the topics they present, are glad to contribute to broadening the understanding of their subject matter fields. They are loaned to the Commission for this purpose, and they receive no additional compensation. Although subject matter experts from universities and private industry occasionally donate their services, they normally are paid an honorarium by the Commission. The total cost to the Commission for each cost-shared course is prorated among agencies in accordance with the number of participants from each agency. For courses designed to clarify personnel legislation or regulations or to orient agency personnel staffs in new personnel programs or policies, the Commission absorbs the cost.

NATURE OF TRAINING COURSES

Mr. THOMAS. You have four or five pages in the justification but you get around the specific question. Get down to specifics. What time do these schools meet?

Off the record.

(Discussion held off the record.)

Mr. THOMAS. You have a sizable cost in this program. You charge yourself with about $365,000. Where does the rest come from?

Mr. MACY. The 22 people here in Washington proposed to be funded at a level of $231,000 are engaged in all of the functions. With respect to the training programs conducted by the Commission, they are programs of an interagency nature. The Commission organizes the program, selects instructors from around the Government or from the academic fields, and brings them in for lectures. Most of these programs are of a week or less in duration.

Mr. THOMAS. Do they meet at night, daytime, when and where?

Mr. MACY. They meet for the most part during the day. This is training that the Government considers to be necessary. Therefore, it is given on company time. They are conducted in the Commission's fine new building or they are conducted in conference rooms or auditoriums, in other Government buildings.

Mr. THOMAS. Give us some details. How long are the classes? You said there are 8 or 10 lectures?

Mr. MACY. Most of them are for 3 or 4 or 5 consecutive days.

Mr. THOMAS. All day?

Mr. MACY. All day long. They are in a variety of subjects. I mentioned automatic data processing. They are concerned with financial management, budget administration, science administration, various areas of administrative activities, and so forth, that cut across agency lines.

Mr. THOMAS. Do you give them an examination, grade them, find out who absorbed it and how much?

Mr. MACY. No. They take the course. Upon completion, they return to their jobs within their agency.

Mr. EVINS. And the agency says, "We need certain type qualified personnel." You say, "We will take it from there," and give them training. You announce a schedule of classes and invite participants.

Mr. MACY. That is right. We send announcements about each course.

Mr. EVINS. You have 10 who will respond. You have a special class for these 10 in automatic data processing. After some period of time you say they are trained.

Mr. MACY. We evaluate the need for a course. We look at the demand.

Mr. EVINS. These are employees in the Government who are working in automatic data processing and you give them advanced training.

Mr. MACY. We give them such training as appears appropriate.

Mr. EVINS. They then go back to the job. Does this help them get a promotion immediately?

Mr. MACY. No. It has no necessary relationship to promotion or advancement. These are people that the agencies judge need this kind of training in order to do their job.

Mr. EVINS. These are people already in the Government. We are not bringing people from the outside and training them?

Mr. MACY. We are training people in the Government. These are people on the job. In order to do a better job, in order to perform more efficiently, more knowledgeably, the Commission has designed these particular programs.

ADP TRAINING

Mr. EVINS. How much does one of these automatic data processing schools cost? Who pays for it, you or the other agency?

Mr. MACY. The agency will pay for the attendance of its employees at an automatic data processing course. This represents a program put on by the Commission outside of its normal area of responsibility. Where the program is in the Commission's area of responsibility, it will be put on without sharing the cost with the agencies.

Here are some examples of the rates. One is an executive seminar in automatic data processing. It has been given at four different times in the past 2 years. The length of the course is 16 hours.

Mr. THOMAS. Who is giving that, GSA? They are in charge of that program.

Mr. MACY. The Civil Service Commission is doing this.

Mr. THOMAS. They are in charge of this program. You are not.

Mr. MACY. GSA and the Budget Bureau asked that we conduct programs of this kind.

Mr. THOMAS. They are the experts. Where do you folks get that expertise?

Mr. MACY. We are experts in training. They are experts in the equipment.

Mr. THOMAS. You have to operate the equipment before you become an expert in it.

Mr. MACY. We draw on people who are experts in the equipment.

Mr. THOMAS. Dr. Boutin over at GSA says they are experts in this field.

Mr. EVINS. The Commission coordinates furnishing the instructors and teachers.

Mr. MACY. As a matter of fact, there is need for skills of this kind in a large number of agencies because there are nearly a thousand ADP installations. We have one ourselves. We have $133,000 in our 1965 request for the purchase of such equipment.

TYPE OF TRAINING CONDUCTED BY CIVIL SERVICE COMMISSION

Mr. BOLAND. Do some of the agencies do the same thing you are doing here? Do they train their own personnel or are you handling all of the training of personnel within the agencies?

Mr. MACY. We are handling training that cuts across agency lines. If there is training in some area of agriculture, obviously this is Agriculture Department's responsibility. But if it is training in financial management, for example, every agency has a concern for financial management because they all must come before Appropriation Committees. They must go before the Budget Bureau. They need to manage the fiscal aspects of their responsibility.

Mr. SHIPLEY. Would the gentleman yield?

Mr. EVINS. Mr. Shipley.

Mr. SHIPLEY. How many people have you trained and how much has the program cost you so far?

Mr. MACY. During fiscal year 1963 the Commission's cost-share courses were attended by 9,736 agency participants, at a cost of $413,555. During this same period the Commission trained 7,780 employees in courses conducted on a nonreimbursable basis. Costs for the latter training were not identified separately.

Mr. EVINS. You say Civil Service conducted all of them or participated in them?

Mr. MACY. The Civil Service Commission publicized these courses and arranged for their conduct. The Commission did not provide all the instructors. The instructors were brought in from various places but the Commission organized, planned, and carried out each particular course.

Mr. SHIPLEY. Where do the teachers or instructors come from? When they come from Government service are they paid extra for this work?

Mr. MACY. Instructors from the Government rolls do this as part of their regular responsibility. If someone is brought in from outside, an honorarium is paid to him. Government people do this as an extension of their normal duties, in order to provide a better understanding in other agencies of their particular field of work.

COST OF TRAINING PERFORMED

Mr. SHIPLEY. Would it be possible to break this down, what the actual cost is for the people trained?

Mr. IRONS. Yes. The average cost is $42 per person trained. In the past fiscal year there were 9,736 participants in Commission-conducted cost-shared courses.

Mr. SHIPLEY. This does not take into consideration that this is on company time, so to speak?

Mr. IRONS. No; this is the out-of-pocket cost to the agency to reimburse us for providing the program. This does not cover his salary or, if any, per diem involved.

Mr. SHIPLEY. Are there any other costs considered in this total?

Mr. IRONS. There might be travel involved as far as the individual is concerned.

Mr. EVINS. Heretofore this was part of the inspection activity.

Mr. MACY. In the past this has been included in the activity entitled "Inspection." We felt that this was an inappropriate classification. We have broken it out so we could have this kind of discussion. We feel this is an important activity. The 11 positions in the field are positions that are set up in order to carry on work of this kind at the regional level.

Mr. EVINS. The committee is familiar with your incentive awards program. That applies across the board to all the agencies. This is set out by responsibility you have by statute.

ROSTER OF CAREER EXECUTIVES

Management of the roster: Tell the committee about that.

Mr. MACY. The roster is a listing of all of the individuals in grades 16, 17, and 18 in the Federal service. It contains information concerning their background and experience, which is made available to the heads of departments and agencies, in connection with the possible movement of these individuals from one program to another.

The agencies call upon us for information concerning qualified people elsewhere in the Government either to bring about a transfer or to compare the qualifications of their own people with others in the same field in other agencies.

Mr. EVINS. Are there further questions on activity 7?

EVALUATION OF TRAINING

Mr. THOMAS. How do you evaluate the training program, Mr. Chairman? You have in round numbers, about 10,000 of these young folks taking your courses. It lasts, how long did you say, 3 to 5 days to a week?

Mr. MACY. Yes.

Mr. THOMAS. They come from every nook and cranny in all of the various bureaus and departments. What part of that 10,000 or what percentage of that 10,000 change jobs during the preceding fiscal year by virtue of their training?

Mr. MACY. The following fiscal year?

Mr. THOMAS. During the fiscal year, after they are trained. What part of them change jobs?

Mr. MACY. I have no way of knowing.

Mr. THOMAS. That is the only way you will be able to evaluate the program; is it not?

Mr. MACY. You mean move on to higher responsibility?

Mr. THOMAS. Yes.

Mr. MACY. We would not have information on that.

Mr. THOMAS. What is the value of it, then? How can you have any accurate information without knowing?

Mr. MACY. We would not feel that a move to another job is necessarily an indication that the training has produced a higher degree of ability on the part of the individual. The intent of the agency in making the training available is so if the individual does a better job on the job he has——

Mr. THOMAS. Do you follow it up from the supervisors on the job from which X came from to see if you have any increase in efficiency? What followup do you have? What is your yardstick for measuring it?

Mr. MACY. It is very difficult to measure the value of training or education.

Mr. THOMAS. No; it is not.

Mr. MACY. Even a college education is difficult to evaluate. This is one thing that always puzzles the educators. Our appraisal is to go back to the agencies——

Mr. THOMAS. We are not advocating shutting it down. That school you were president of 2 or 3 years ago, you do not want to cut it down until you come to an answer to that, do you?

Mr. MACY. No. I do not want to shut this down because I have no answer as to their direct value.

Mr. THOMAS. Can you give me an approximate value? Going back to your college level, you have a better answer than that. Take the level of education and take the income from it. You have a very good yardstick. You know better than the answer you gave. You have a very fine, a very accurate yardstick. You apply that same yardstick to your classes here and see where you come out. Apply the same yardstick you do to the college graduate and to the noncollege graduate, or to the 2-year or 1-year college student.

Mr. MACY. The evaluation we get is from the agency that sends the individual and——

Mr. THOMAS. What is that evaluation?

Mr. MACY. The evaluation is very favorable. It is expressed in demand for more courses of the same kind in order to increase the capability of other people who have like jobs to perform.

Mr. THOMAS. I did not think you had that information. That is what we want. You get a lot of statements from the various bureaus and agency heads saying that it is productive, it is improving them.

Mr. MACY. Yes; there is continuing discussion with the agencies that send these students as to whether or not the course is contributing.

Mr. THOMAS. This program has been in operation since when?

Mr. MACY. It has been in operation since fiscal year 1961.

Mr. THOMAS. Mr. Shipley asked about this before. He asked you for a direct figure. You can give him that figure of costs and how many students you have had. You certainly can give him that.

Mr. MACY. We did. That is the 9,700 figure.

Mr. THOMAS. He asked you since it had been in operation.

Mr. MACY. We can go back.

Mr. THOMAS. The figure of almost 10,000 is there, as I read your justifications. What are you going to do this year? Is that a cumulative figure?

Mr. MACY. That was for last fiscal year.

Mr. THOMAS. I think this is your fourth fiscal year. He asked you how many students you had.

Mr. EVINS. You supplied it for 1 year. Supply for the record the totals for the 4-year period.

Mr. BOLAND. How many do you anticipate having in 1963?

Mr. MACY. Approximately the same level. That is why this is funded with the same figure and with approximately the same number of people. We feel this is an appropriate level.

(The information requested follows:)

Reimbursable training conducted by the U.S. Civil Service Commission since start of program (fiscal years 1961–63)

	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Total
Total cost	$36,800	$187,000	$413,555	$637,355
Number of course sessions	13	68	182	263
Number of participants	1,553	4,761	9,736	16,050
Cost per course per participant	$23.80	$39.00	$42.00	
Cost per course per participant hour	$0.74	$1.20	$0.94	

SELECTION OF STUDENTS

Mr. JONAS. Is the school open to all employees or are they selected by management?

Mr. MACY. They are selected by management. This is a management-selected attendance in order to meet what management considers to be the need for higher level of ability and understanding to do the job.

TRANSPORTATION AND SUBSISTENCE COSTS

Mr. JONAS. The students are sent to the Marine School from the Midwest. Do you pay transportation and subsistence?

Mr. MACY. Those that are sent to King's Point, to the program there?

Mr. JONAS. Yes, or anywhere.

Mr. MACY. For any program that involves travel and living away from home there is payment of travel and subsistence by the agency for the period of time of the training. The salary is expense beyond the training expense that is incurred by the Commission.

Mr. OSTERTAG. Mr. Chairman.

Mr. EVINS. Mr. Ostertag.

SUPPLEMENT TO ON-THE-JOB TRAINING

Mr. OSTERTAG. I just wanted to get this clear in my own mind. I can see and understand where training has a purpose and is probably a laudable program. On the other hand, these people have all qualified through civil service by virtue of examination. In other words, they maintain a basic qualification.

Mr. MACY. Yes.

Mr. OSTERTAG. Now of course we all recognize, I am sure, that experience is a great teacher and they are on jobs. Where does experience on the job tie in with the need, or what is the relationship between the need for training and the actual experience that they have in their positions for which they qualified in the first place?

Mr. MACY. This is supplementary to the on-the-job training and experience.

Mr. OSTERTAG. I understand.

Mr. MACY. Certainly we would continue to say that on-the-job training is the best training that you can have. Our view, however, is that there is a need to supplement such training where there are new techniques, new equipments, or new programs that have come into being. This is taking the individual who qualified initially and augmenting his capabilities so that he can do the new job.

Another purpose is to provide an individual with a higher level capability, if he is going to move into a management job, or if he is going to take on some additional responsibilities for which he did not have direct education or training previously. This is a supplement to the training on the job and experience.

Mr. OSTERTAG. I thought you indicated that promotions were not involved in this program.

Mr. MACY. They are not directly related. In other words, the effort is to provide training as a means of increasing the individual's ability to do the job that he now has, to raise the level of performance in his present job.

It may very well be, as the Chairman has indicated, that the individual does move on to a higher level of responsibility. This is one of the reasons why the agency would invest in training. But it is not the only reason.

Mr. EVINS. The program supports the old theory that one never gets too old to learn.

Mr. MACY. Right. Education is a continuing process that has to go all the way through life, and because of the importance of training in doing the Government's job it has to be tied in with official work.

INTERAGENCY COOPERATION IN TRAINING

Mr. JONAS. I certainly agree with that, if you will yield, but you have not fully convinced me yet that the Civil Service Commission is better qualified to do that than the agency itself.

Mr. MACY. Again, we are not superseding the agency. The agency is training where it has its own capability. We conduct training programs of this kind only where there is a demand from a number of agencies. Rather than doing the same kind of training in several different agencies at the same time, it saves money and resources to conduct such training in one place. The Commission gets in the act only in response to particular needs of this kind.

Mr. BOLAND. That sounds good. I hope it is true. I would hope that agencies which have been conducting this type of training program in a specific category would combine with the Civil Service Commission and other agencies.

There is a real danger of overlapping here in that agencies will conduct their own seminars, conduct their own training schools in a particular subject that you are concerned with, with which you are training other agencies of Government. Is that true?

Mr. MACY. We are very conscious of this possibility and to use the GSA example we make very certain that the areas that they are covering are not areas that are available through our program, and if through their new institute they are taking on some training subjects where they have a greater capability, this is fine. This is something that they ought to be doing.

Mr. BOLAND. And if other agencies are in need of the same type of training and GSA can give it, do you get other agencies to come in and take it from GSA?

Mr. MACY. Yes. In fact, we put out a catalog each year of courses that are available for interagency use. Only a relatively small proportion of the courses in that catalog are conducted by the Commission. They are courses that are made available through GSA, or they may be conducted by the Department of Defense or the State Department, but open to other agencies. Here we feel that our function is to perform as a clearinghouse and a center of information with respect to interagency training.

Mr. BOLAND. I think this is good.

Mr. EVINS. Instead of having all training exclusively in one agency or one shop, you get a cross-section and the view that the knowledge may be disseminated and taken by each agency back to their own.

Mr. MACY. Yes. This document, "Interagency Training Programs," is what Mr. Irons calls "The Catalog of the College Without a Campus." This is the interagency training program for all agencies. In going through this you will see; that is, here is one on records disposition; a 2-day program conducted by the GSA. This is in their area. This is in connection with records and archives.

Mr. BOLAND. That sounds good.

CORRESPONDENCE COURSES

Mr. JONAS. One question right there. Have you considered whether you can do any of this by correspondence, or through correspondence schools?

Mr. MACY. I believe there are some correspondence courses, but these are all programs——

Mr. JONAS. Do you think demonstration and oral instruction is better than correspondence?

Mr. MACY. It is better for the type training involved here. Again, let me say that there are many Federal employees who on their own are taking what we call self-development courses at universities, through correspondence and by other means.

Mr. JONAS. I know there is a growing trend in the educational field to expand educational opportunities through correspondence, particularly in the adult group. Most of your trainees would fall in that group. If the universities can do a good job with it, I do not know why the Government cannot.

Mr. MACY. We are working very closely with the correspondence schools and the universities. In fact, many universities have established off-campus units at Federal establishments where they make training available. This is outside company time and at the individual employee's expense.

The role of the Government is only to encourage the employee to engage in this kind of self-improvement for his own good and indirectly for the good of the Government.

Mr. EVINS. This has been very helpful.

EXECUTIVE AND ADMINISTRATIVE SERVICES

We will move on into activity 8, "Executive and administrative services." I have looked this over, Mr. Chairman. You had a total of 289 employees for 1963, 281 for 1964, and you are asking for 281 for 1965. There is no change in numbers of personnel in 1965 compared to 1964. The funding is also the same, $2,145,000.

I do note over the 2-year period there has been an increase in only one activity and the Commission is to be commended. This is in the legal staff. I imagine with all the laws passed regarding Government employees you probably need another good lawyer down there?

Mr. MACY. That is correct.

Mr. EVINS. We will place in the record the general statement for executive management. We know what this is—overall management, approval of policies, recommendations to the President. Put in the record pages 88 and 89.

(The pages follow:)

Executive and administrative services

Functions	1963, actual		1964, authorized		1965, estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Office of the commissioners	23	$204,287 (211,089)	22	$204,500 (207,100)	22	$207,100
Executive direction	17	186,086 (199,908)	17	196,200 (201,000)	17	201,000
Legal services	19	175,311 (187,316)	20	188,100 (192,200)	20	191,700
Director of management services	9	76,512 (79,773)	9	84,800 (85,700)	9	85,700
Budget and fiscal services	41	305,243 (324,507)	38	303,000 (308,000)	38	308,000
Management systems services	27	205,157 (215,320)	25	201,900 (206,000)	25	206,000
Offices services	116	650,885 (686,709)	114	655,700 (670,000)	114	670,000
Personnel services	24	184,208 (195,092)	23	183,700 (187,600)	23	187,600
Library services	13	82,732 (85,595)	13	86,600 (87,900)	13	87,900
Total, activity 8	289	2,070,511 (2,185,300)	281	2,104,500 (2,145,500)	281	2,145,000

NOTE.—Figures in parentheses above and in the following text are adjusted to reflect 1965 pay rates for comparability.

GENERAL STATEMENT

This activity consists of the executive and administrative functions of the Commission as performed in its central office and as listed in the table on the preceding page. Included are (1) the overall management and services required to facilitate the performance of the operating activities heretofore presented; (2) the approval of policy in the formulation of civil service rules and regulation; and (3) the recommendation of measures to the President to promote the more effectual accomplishment of the objectives of the civil service laws and rules.

The amount authorized for this activity for fiscal year 1964 represents a decrease of eight positions from the 1963 experience. Funds requested for fiscal year 1965 continue all functions of this activity at the 1964 authorized level. Detailed justifications are contained in the following pages.

Mr. EVINS. We think the Commission does a good job and now with their new building——

Mr. MACY. We are going to do an even better one.

Mr. EVINS. Any questions to the Commissioners themselves regarding their own management?

(No response.)

OTHER OBJECTS OF EXPENDITURE

Mr. EVINS. Other objects, in your budget, I notice show a substantial increase. Put page 98 in the record.

(The material referred to follows:)

Other objects of expenditure

Object classification	1963 actual	1964 authorized	1965 estimate
12 Personnel benefits	$1,307,822 (1,384,860)	$1,314,200 (1,339,800)	$1,321,000
21 Travel and transportation of persons	462,274	547,800	450,000
22 Transportation of things	132,026	135,300	135,300
23 Rent, communications, and utilities	957,308	1,056,500	1,123,500
24 Printing and reproduction	489,686	490,000	490,000
25 Other services	309,025	310,000	303,000
26 Supplies and materials	225,201	225,000	225,000
31 Equipment:			
Furniture and other equipment	466,720	71,200	71,200
Mechanized filing equipment	0	0	165,000
Computer	0	0	133,000
Total, other obligations	4,350,062 (4,427,100)	4,150,000 (4,175,600)	4,417,000

NOTE.—Figures in parentheses above and in the following text are adjusted to reflect 1965 pay rates for comparability.

Mr. EVINS. We mentioned earlier utilities, rents, communications. The President is trying to keep the light bill down. Do you follow that pattern?

Mr. MACY. Yes, sir, we do indeed. We turn out lights as soon and as early as we can. We are using solar power. On page 104 there is an explanation of that rent item that you were asking about. You will notice the increase is in the telecommunications service, which is a reimbursable item to GSA.

COMMUNICATIONS COSTS

Mr. EVINS. Payment to GSA, local calls, long distance toll calls, teletype and telegraph service, an increase of $67,000 is requested, brought about by Public Law 87-847. This establishes the communication fund, to be administered by GSA.

Mr. BOLAND. This is where GSA is saving $15 million; is it not, Mr. Chairman?

Mr. THOMAS. Look in the back and see if you can find the offset for the $67,000. I couldn't find it.

Mr. MACY. This is an added amount we had no control over.

Mr. THOMAS. You ought to show a reduction in your communications.

Mr. EVINS. It is going up every year.

Mr. BOLAND. You should be able to reduce your telephone bill considerably over the years as a result of the telecommunications setup.

Mr. UHLENHOP. Over the years, perhaps, this is nothing more than a shift in financing.

Mr. THOMAS. Why not the first year?

Mr. BOLAND. In long-distance calls you get a tremendous break. At least GSA tells us they have saved $15 million from all agencies.

Mr. THOMAS. That is, printed and spoken word.

Mr. MACY. Maybe this is like the Board of Examiners in reverse.

Mr. JONAS. Will you yield?

Mr. EVINS. Mr. Jonas.

INCREASE IN BILLINGS FROM GSA

Mr. JONAS. Laying jokes aside, I would like a little better explanation of why the telephone and telegraph service is going up to $67,000. It is an increase in the billings from GSA. How are they going to save any money on it if they go up on the billings?

Mr. WILLIAMS. The $67,000 which the Bureau of the Budget approved for inclusion in the budget represents certain costs plus an increase in teletype costs, which GSA has heretofore paid for out of direct appropriations. Because of the establishment of the Federal telecommunications fund, financed from a revolving fund type of operation, it is now proposed to make it completely self-supporting by charging to the agencies a prorated share of expenses which have always been present, but paid by GSA. It is not a new item.

Mr. THOMAS. Is it equipment? They are getting in business. That is your part of the equipment.

Mr. MACY. This started in February 1963.

Mr. THOMAS. You mean by that you will show the reduction next year?

Mr. WILLIAMS. I am not sure there will be a reduction next year.

Mr. THOMAS. Like Mr. Boland asked, How can it be justified?

Mr. WILLIAMS. We also got a notice that our teletype rates were to be increased. This is a direct out-of-pocket expense to us. At the mill price per word by GSA teletype service, costs will be increased by almost 100 percent.

Mr. MACY. 15 to 33 mills per word.

Mr. THOMAS. Where is the reduction?

Mr. WILLIAMS. Our point is, that is not a reduction to the Commission, it is an added expense.

Mr. THOMAS. How much more are you spending this year for the same services?

Mr. EVINS. $241,000 in fiscal year 1964 versus $308,000 in fiscal year 1965.

Mr. WILLIAMS. We expect our normal expenses for communications to be the same. Our only increase is the $67,000 which we must reimburse to GSA.

Mr. JONAS. I was just informed, Mr. Chairman, that the GSA budget shows a minus of about $5 million and apparently this $67,000 is the Civil Service part of that $5 million.

Mr. IRONS. That is the way I would interpret the letter from Mr. Boutin. He informed me he got $5 million from this committee. He is not asking for $5 million. Instead he is prorating to every agency. Now, we have to defend $67,000.

Mr. JONAS. Can you assure the committee that you are not planning to spend $67,000 more in communications next year than you have this year?

Mr. IRONS. All I know is we are being billed for $67,000 which we were never billed for before.

Mr. OSTERTAG. In other words, GSA is not actually reducing or saving it? They are just transferring it to other agencies?

Mr. MACY. That is for them to say. In accordance with GSA Circular No. 313, we have placed in our budget $67,000 which we did not have previously in order to cover this new telecommunications system and the increased costs in teletype service.

Mr. THOMAS. Gentlemen, let us refresh our memory now. They had to put in switchboards and other equipment. Assuming that that is correct, this is for initial equipment. What do you anticipate your actual communication bill—the written word and spoken word—will be this year as compared with last year?

Mr. WILLIAMS. About the same, sir.

Mr. THOMAS. No reduction?

Mr. WILLIAMS. No, sir.

Mr. MACY. No increase?

Mr. WILLIAMS. No increase.

Mr. THOMAS. We are looking for a sizable reduction.

Mr. WILLIAMS. If anything, I am afraid our charges are going up, because as I said, with regard to teletype messages sent through GSA, there is going to be more than a hundred percent increase.

Mr. THOMAS. What about your spoken word, your long lines, long-distance calls?

Mr. WILLIAMS. There is a theoretical reduction there, Mr. Chairman, to the extent we did not use it.

Mr. THOMAS. Added together, what is it?

Mr. WILLIAMS. We are assuming one is going to offset the other.

Mr. THOMAS. No reduction?

Mr. WILLIAMS. No.

Mr. THOMAS. In total, no reduction?

Mr. WILLIAMS. The increased cost of our teletype messages will probably offset any savings we get for long-distance calls.

Mr. THOMAS. Gentlemen, bear this in mind, that there is no reduction.

Mr. EVINS. We will bear this in mind when we have an examination of GSA.

OTHER EQUIPMENT

Other equipment costs are up also, Mr. Chairman. You are asking $165,000 for mechanized filing equipment, $133,000 for an electronic digital computer, and your total estimate for equipment is $369,200.

How much did this committee approve in appropriations for all new equipment and furnishings when you moved into the new building?

Mr. THOMAS. You broke the Treasury, Mr. Evins.

Mr. MACY. I think we got about 50 percent of what we asked for, wasn't that right?

Mr. WILLIAMS. In our regular budget we had $140,000 for the normal purchase and replacement of equipment. We were at the normal level of buying furniture and machines and things of this kind. We received through the Congress, in a supplemental appropriation, $248,000, which was exactly half what we had asked for in connection with the movement to the new building.

Mr. THOMAS. Isn't that a fair division, 50–50?

Mr. WILLIAMS. We were satisfied.

Mr. MACY. We are not making any complaints at all.

We are very pleased with what we have.

Mr. WILLIAMS. We spent $387,000 in 1963 in connection with the upgrading of furniture and equipment.

Mr. EVINS. In your 1965 request you are asking for locked files for security investigations, et cetera?

Mr. WILLIAMS. Yes, sir.

PURCHASE OF ELECTRONIC COMPUTER

Mr. EVINS. Do you have any electronic computing equipment at present?

Mr. MACY. Yes, sir. It is on lease at the present time. We have an IBM 1401, and using the Bureau of the Budget standards, it is our belief that it would be better economy to purchase this equipment in 1965 and thereby eliminate the rental charges. That is the reason for the $133,000 figure in there for the electronic computer.

Mr. THOMAS. Mr. Chairman, it is our opinion here that generally it is better to buy this equipment outright. Straighten out the record. You have two or three figures in there. What is the actual purchase price and how much rent have you paid, whether or not the rent goes against the purchase price, and exactly what are you doing with the equipment? Your justification is not clear on what you are doing with it.

Mr. EVINS. Spell that out for the record.

Mr. THOMAS. Some of the gentlemen are of the opinion that you are grading tests with it.

Mr. WILLIAMS. The sales price for the equipment bought outright is $341,000. We were a little uncertain whether we should buy outright, so in accordance with standards issued by the Bureau of the Budget we appraised the situation and decided for at least 2 years we should rent, and at that point make up our mind whether we should then buy. For that reason we rented with an option to buy. That option lasted for 2 years. The option expires this coming May 12. Part of our option agreement is that 65 percent of any rentals paid would be credited to the purchase price anytime within that 24-month period.

We got the computer in May of 1962—in effect the beginning of fiscal year 1963—so that in 1963 and 1964 we will have paid $175,000 in rental. We will get $114,919 of that credited to the purchase price. It costs us $3,411 to get this option to buy written into the contract. We get full credit for that $3,411 in the event that we buy.

Mr. EVINS. How much is the total cost?

Mr. WILLIAMS. $341,150.

Mr. EVINS. You need $133,000 more to complete the transaction with your credits.

Mr. WILLIAMS. We need $133,000 plus the $90,000 we have in other objects for a year's rental.

Mr. EVINS. Plus the credits you receive on the option.

Mr. WILLIAMS. Plus the credit. We will amortize the complete price by 1967. In 2 years we will have paid for it in terms of the rental we otherwise would have paid.

SERVICE CHARGE ON ADP EQUIPMENT

Mr. EVINS. What kind of provision do you have in the contract with respect to annual service charge payments to the company?

Mr. WILLIAMS. On a rental basis we pay no service charge. If we buy outright we can get a complete service contract for $10,500 a year. So in effect we are saving many thousands of dollars a year in rentals once we have amortized the cost of it in 1967.

Mr. THOMAS. That all boils down, gentlemen, that he is looking for about $225,000 in round figures, cash, to buy it this year.

Mr. WILLIAMS. Just about.

USES OF THE COMPUTER

Mr. THOMAS. Tell us exactly what you do with the machine. That is where the justification is thin. What do you do with it?

Mr. WILLIAMS. The machine is being used roughly one and two-tenths shifts a day. This means roughly about 10 hours a day we are effectively using the computer and the components of it. We have quite a number of programs already on it. We have got the complete annuity roll of something better than 600,000 payees on it. We have got the 10-percent sample of Federal employees, a program which has been discussed with this committee before.

Mr. THOMAS. Get back to your subject. In what regard do you use it on your annuitants?

Mr. WILLIAMS. We keep the payroll of the annuitants current, all name changes that occur, all removals because of deaths, all new cases coming in. This is almost a pure payroll operation between ourselves and Treasury.

Mr. THOMAS. You have a reduction in your limitation on the expense for the retired people.

Mr. WILLIAMS. I do not think we have got it to the point where we are going to get savings out of it.

Mr. THOMAS. What is the use having the machine? Why spend this $225,000?

Mr. WILLIAMS. I think we will get savings. It has only been programed within the past year.

Mr. THOMAS. You have had it 2 years now.

Mr. WILLIAMS. But work did not get on the machine as soon as we got delivery. It takes time, as you probably know, to gear necessary operations, to get the work on machines. A first-year cost sometimes, actually amounts to more than when you were doing it on some

other basis, but as time goes on, and you have your program written, and you get into operation, you do get savings in future years. But you do not, most times, get savings out of it as soon as you have put an operation on the computer.

Mr. THOMAS. Gentlemen, didn't we have the experience in one agency that after we bought the computers the salary costs went up?

Mr. EVINS. Yes. We have had that experience. We have had experience that they go up generally when we were told that they would be reduced.

Mr. THOMAS. The purpose of the machine was to reduce overall cost.

Mr. EVINS. The thing I do not like about the whole proposition is this annual $10,000 payment for service when many times you probably won't need service. You, in effect, are buying it and then putting the company on the payroll. This is the best business you can get into, gentlemen.

Mr. MACY. Our experience has been that the service is necessary, is it not?

Mr. WILLIAMS. It is quite essential.

Mr. THOMAS. In other words, you are working your machine overtime every day. Did you say that? It is about 10 hours a day.

Mr. WILLIAMS. About 10 hours a day.

Mr. THOMAS. It fits how many programs that you have in the agency?

Mr. WILLIAMS. At the present time we have many different programs on the machine.

(The information requested follows:)

USE OF ADP BY CIVIL SERVICE COMMISSION

The following are representative uses of automatic data processing equipment in Civil Service Commission systems:

Federal personnel sample program.—Maintenance of a 10-percent sample of Government personnel records for the preparation of statistics and management reports.

Maintenance of retirement actuarial file.—Maintained for the preparation of actuarial tables and statistics.

Preparation of employee health benefits data.—Processing for the purpose of determining payments to insurance carriers.

Processing claims for deposit and redeposit.—Computations of withdrawals and deposits to the retirement fund.

Computation of retired annuitant and survivor pay data.—Daily computation of annuities.

Automation of test scheduling.—Scheduling test applicants in accordance with examination point capacities; preparing examiner's instructions; preparing applicant admission letters.

Automation of test scoring.—Scoring tests, notifying applicants of results, and preparing statistical data.

SELECTION OF COMPUTERS

Mr. THOMAS. Who helped you select this particular machine?

Mr. WILLIAMS. We went out on competitive bids to all in the industry.

Mr. THOMAS. Did the Bureau of Standards or GSA have a hand in helping you make up your mind?

Mr. WILLIAMS. GSA did not. At that time, 2 years ago, they had no responsibility in the field.

Mr. THOMAS. What about the Bureau of Standards?

Mr. WILLIAMS. The Bureau of the Budget is primarily the agency which is setting standards with regard to acquisition of this type of equipment.

EQUIPMENT JUSTIFICATION

Mr. EVINS. I am through except for putting this material in the record, Mr. Reporter, pages 109 through 113.

(The justification pages follow:)

Equipment

Actual, 1963	$466,720
Authorized, 1964	71,200
Estimate, 1965	369,200

This object class provides for nonexpendable personal property which may be expected to have a period of service of 1 year or more after being put into use, without material impairment of its physical condition. It excludes commodities which are used to form a minor part of equipment or fixed property.

The following table shows total equipment requirements:

	1963 actual	1964 authorized	1965 estimate
Typewriters	$24,055	$24,000	$24,000
Office machines	35,353	35,400	35,400
Furniture and filing equipment	303,783	4,100	4,100
Miscellaneous nonexpendable property	103,529	7,700	7,700
Mechanized filing equipment	0	0	165,000
Electronic digital computer	0	0	133,000
Total	466,720	71,200	369,200

It will be noted from the above table that a substantial decrease occurred in fiscal year 1964 for furniture and filing equipment and miscellaneous nonexpendable property. Since a large part of the total funds available in fiscal year 1963 (including the supplemental appropriation) were used to replace furniture and miscellaneous items in the new building (FOB No. 9), only a token amount of funds are being requested for these categories for fiscal year 1965.

The items for which increases are requested in fiscal year 1965 follow:

Mechanized filing equipment

Within the Bureau of Personnel Investigations, the Commission maintains a large number of insulated, multirow, cross-drawer filing cabinets. This equipment provides for the security investigations index (SII) file and the security file (formerly "leads" file).

The operation of these files requires observance of extremely close production deadlines; the services of 53 searchers; nearly 5 million actions per year; approximately 10 million cards and guides; approximately 8,500 square feet of floor space; and the full-field clearance and training of 8 or 9 new searchers annually due to employee turnover. In addition, these files are currently expanding at a rate of 250 linear feet of filing compartment space per year, which is equivalent to approximately 80 to 100 square feet of floor and aisle space, and $2,000 in equipment costs.

Although active and continuing efforts have been made to reduce costs and turnover, and to increase productivity through various techniques in work measurement, audit, disposition, and personnel relations, the desired results have not materialized.

Due to rising costs for personnel and equipment, increasing volume of material and workload, and restrictions on available space, it was evident that consideration had to be given to additional devices or techniques to insure or improve operational effectiveness. Accordingly, attention was given to a special study on the merits of converting the investigative index files to a mechanized operation.

This study demonstrated that the use of mechanized (semiautomatic) filing equipment would provide the desired speed, accessibility, safety, compactness, and laborsaving features essential for this function. In addition, it would permit the most effective utilization of manpower, space, and equipment. For instance, it is estimated that 10 positions can be eliminated at a saving of $43,000 annually in personal services costs. (This saving is reflected in the summary and comparative summary statements under that portion pertaining to activity 2, "Investigations of character and fitness for employment"). Also,

approximately 3,000 square feet of floorspace would be available for other purposes, or future expansion.

Through the acquisition of 25 work units, with a capacity of 350,000 to 400,000 cards each, and 13 units of 150,000 cards capacity each, it would be possible to effect complete conversion of the present investigative index and security files. This would permit the release of 280 insulated cross files to the General Services Administration for redistribution to other Government agencies.

To provide for the mechanization of this function, an increase of $165,000 is requested for fiscal year 1965.

IBM model 1401 electronic digital computer

The Commission acquired this computer on a lease-with-option-to-purchase basis in the latter part of fiscal year 1962. The original selection of this equipment was based on the provisions of Bureau of the Budget Circular No. A–54 (which provides policies on selection and acquisition of automatic data processing equipment). Under the terms of this contract, the Commission was entitled to make a decision in favor of purchase at any time within 24 months after installation (specifically, before May 12, 1964). It further provided the opportunity to recapture approximately 65 percent of all rentals paid to date of purchase, as well as credit for the deposit made for this option.

According to the guidelines contained in Circular No. A–54, a recent evaluation of the relative merits of the various methods of acquisition (i.e., purchase, lease, or lease with option to purchase) indicated that it would be more advantageous to effect purchase of this equipment, in lieu of other methods. For example, the ability of the presently installed equipment to successfully and advantageously perform the Commission's work has been well demonstrated by actual experience. In addition, a comparative cost analysis revealed that a decisive financial advantage will exist through actual purchase. Assuming purchase in fiscal year 1965, rental costs would exceed purchase costs by $20,500 within 2 years after purchase. One year later, rental excess over purchase would amount to $102,700.

Based on predictable workloads, the study clearly showed that the capabilities of this equipment will be required for a long enough period to warrant its purchase.

Since careful consideration has been given to the merits of purchasing this equipment and in order for the Commission to exercise the option-to-purchase, a net amount of $133,000 is requested for fiscal year 1965. This amount, plus approximately $90,000 included under object classification 23 (rent, communications, and utilities) for normal rental, represents the difference between the actual purchase price less allowances for the option deposit and rental costs to purchase date.

Investigation of U.S. Citizens for Employment by International Organizations

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation: Permanent positions	22	25	25
12	Personnel benefits	2	2	2
21	Travel and transportation of persons		5	6
24	Printing and reproduction		1	2
25	Other services		1	1
	Services of Civil Service Commission Bureau of Personnel Investigations	400	473	518
	Services of Federal Bureau of Investigation	57	73	80
	Total obligations	481	580	634

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	2	2	2
Average number of all employees	2	2	2
Employees in permanent positions, end of year	2	2	2
Employees in other positions, end of year	0	0	0
Average GS grade	7.3	7.3	7.3
Average GS salary	$6,985	$7,300	$7,373

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Investigations (program costs, funded)	453	580	634
Change in selected resources [1]	28		
Total obligations	481	580	634
Financing: Unobligated balance lapsing	119	20	
New obligational authority (appropriation)	600	600	634

[1] Selected resources of June 30 are as follows: Unpaid, undelivered orders, 1962, $85,000 (1963 adjustments, −$3,000); 1963, $110,000; 1964, $110,000; 1965, $110,000.

Mr. EVINS. Investigation of U.S. citizens for employment in international organizations, explain that, Mr. Chairman.

Mr. MACY. The Commission accepts the estimate from the Department of State and based on previous experience develops the budget presentation. This request is $34,000 above the appropriations for 1964. A table on page 113 shows the number of cases that were estimated along with the unit cost, to determine the total request.

Mr. EVINS. There were 1,222 name checks in 1963. You will have name checks on 1,625 in 1965; full field investigations increased from 60 in 1963 to 80 for 1965.

Mr. MACY. Those are two items for which we reimburse the FBI. The rates and unit costs are the FBI's computation.

Mr. EVINS. You have some adjusted figures in brackets.

Mr. MACY. That is to adjust the 1963 and 1964 unit costs to the 1965 pay scales. That was done to give the committee a picture of what the unit cost would have been in 1963 and 1964 if the 1965 pay scales had been applicable at that time.

Mr. THOMAS. Mr. Evins, let me interrupt you a minute. Off the record.

(Discussion off the record.)

Mr. EVINS. Place in the record, Mr. Reporter, pages 112 through 116.

KANSAS STATE UNIVERSITY LIBRARY
MAY 26 1964
MANHATTAN, KANSAS

(The pages follow:)

Investigation of U.S. citizens for employment by international organizations

Functions	1963, actual	1964, authorized	1965, estimate
Federal Bureau of Investigation:			
Name checks	$1,947 (2,016)	$2,480 (2,516)	$2,700
Full field loyalty investigation	53,940 (57,600)	70,520 (72,000)	76,800
Subtotal, FBI	[1] 57,335 (61,066)	73,000 (74,516)	79,500
Civil Service Commission:			
National agency checks	1,003 (1,012)	1,200 (1,250)	1,300
Background investigations	373,100 (373,100)	447,500 (462,750)	490,000
Loyalty advisory opinions	30,894 (34,055)	39,610 (40,225)	43,200
Analysis of other cases	18,605 (20,567)	18,690 (18,859)	20,000
Subtotal, CSC	423,602 (428,734)	507,000 (523,084)	554,500
Total	480,937 (489,800)	[2] 580,000 (597,600)	634,000

[1] Includes $1,448 for preliminary investigations.
[2] Excludes $20,000 estimated unobligated balance on June 30, 1964 which represents savings due to reduction in case costs for CSC background investigations.

NOTE.—Figures in parentheses are adjusted to reflect 1965 pay rates for comparability.

Summary workload table

Workload items	1963, actual		1964, authorized		1965, budget estimate	
	Number of cases	Cost per unit	Number of cases	Cost per unit	Number of cases	Cost per unit
Federal Bureau of Investigation:						
Name checks	1,222	$1.59 (1.65)	1,525	$1.63 (1.65)	1,625	$1.65
Full field loyalty investigations	60	899.00 (960.00)	75	946.26 (960.00)	80	960.00
Civil Service Commission:						
National agency checks	134	7.50 (7.52)	170	7.06 (7.10)	180	7.10
Background investigations	1,066	350.00 (381.00)	1,325	337.50 (350.00	1,400	350.00
Loyalty advisory opinions	106	291.45 (321.00)	135	263.41 (297.90)	145	297.90
Analysis of other cases	861	21.61 (23.77)	1,070	17.47 (17.62)	1,135	17.62

NOTE.—Figures in parentheses are adjusted to 1965 pay scale for comparability.

GENERAL STATEMENT

Executive Order 10422, as amended, sets forth the procedures used for making available, to the Secretary General of the United Nations and the executive heads of other international organizations of which the U.S. Government is a member, certain information concerning U.S. citizens employed, or being considered for employment, by such organizations.

Under the Executive order, investigations are made by the Civil Service Commission and the Federal Bureau of Investigation. The Commission makes (1) background investigations in all cases involving U.S. citizens employed or being considered for employment for a period exceeding 90 days and (2) checks of specified records (national agency checks) for short-term (90 days or less)

appointees or potential appointees. The Federal Bureau of Investigation makes full field loyalty investigations whenever, during the course of investigations by the Civil Service Commission, derogatory information with respect to loyalty is revealed.

The reports of these investigations are forwarded to the International Organizations Employees Loyalty Board of the Civil Service Commission. The Board makes an advisory determination under the standard specified in the order. The standard is "* * * whether or not on all the evidence there is a reasonable doubt as to the loyalty of the person involved to the Government of the United States."

The Board sends its determinations, as advisory opinions, to the Secretary of State for transmission to the executive heads of the international organizations concerned for their use in exercising their responsibility with respect to the integrity of the personnel employed or to be employed by such organizations.

It is not the function of either the Civil Service Commission or the Federal Bureau of Investigation to make decisions as to whether the person investigated shall be retained or given further consideration for employment. That is a matter for the decision of the Secretary General of the United Nations or the executive heads of other international organizations.

Based on workload estimates received from the State Department, 1,325 investigations are expected in fiscal year 1964. The 1964 budget request was based on 1,335 background investigations at an average unit cost of $387. Improvements in the Commission's investigative procedures have reduced the cost of background investigations by $50 per case. Therefore, the 1964 authorized program is based on an average unit cost of $337 per case and contemplates an estimated unobligated balance of $20,000 on June 30, 1964, resulting from these savings.

The State Department indicated that some international organizations will continue to expand during 1964 and 1965 and estimated receipts of 1,400 investigations during fiscal year 1965. The Food and Agriculture Organization and the International Monetary Fund, for example, have budgeted for and expect to employ additional personnel. It is not unreasonale to assume that a good number of U.S. citizens will be placed in these positions. Also, a large number of vacancies due to turnover will be filled in all international organizations.

The 1965 budget request of $634,000 represents an increase of $54,000 from the authorized 1964 program ($34,000 from the 1964 appropriation level) as a result of (1) the increased number of investigations to be processed and (2) increases in unit costs due to second phase of Public Law 87–793.

Unit cost of investigations by the Federal Bureau of Investigation increased from $920 to $960 per investigation, and background investigations conducted by the Civil Service Commission increased from $325 to $350 per investigation due entirely to the increased pay rates.

Mr. OSTERTAG. Will the chairman yield?

Mr. EVINS. Yes.

INCREASES IN CASE COSTS

Mr. OSTERTAG. Mr. Chairman, in your justification statement, you refer to the increase as being brought about by the increased number of investigations to be processed and an increase in unit cost, due to the second phase of Public Law 87–793.

Mr. MACY. Yes.

Mr. OSTERTAG. What is that unit cost in the second phase of Public Law 87–793?

Mr. MACY. These are the rates that went into effect January 1, 1964, which would be applicable for the full period. You will see back on the table on 113 what this amounts to. On national agency checks by the Commission, the cost is $7.06 in 1964, with the new rates applicable, it becomes $7.10

Mr. OSTERTAG. Thank you.

Mr. THOMAS. It reflects the pay increase to some degree, does it not?

Mr. MACY. It reflects the increase as of January 1 of this year.

Annuities Under Special Acts

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. To employees engaged in construction of the Panama Canal	1,498	1,399	1,297
2. To widows of former employees of the Lighthouse Service	387	401	403
Total program costs, funded—obligations (object class 13)	1,885	1,800	1,700
Financing: Unobligated balance lapsing	115		
New obligational authority (appropriation)	2,000	1,800	1,700

Mr. Evins. "Annuities under special acts." Mr. Reporter, place in the record pages 117 through 120.

(The pages follow:)

"Annuities Under Special Acts

"For payment of annuities authorized by the Act of May 29, 1944, as amended (48 U.S.C. 1373a), and the Act of August 19, 1950, as amended (33 U.S.C. 771–775), [$1,800,000] *$1,700,000, (Independent Offices Appropriation Act, 1964.)*"

No change in appropriation language is required for fiscal year 1965 other than to indicate the total amount of appropriation.

The estimated requirements for fiscal year 1965 for payments under the Panama Canal Construction Act, 48 U.S.C. 1373a, May 29, 1944, as amended, and to widows of former employees of the Lighthouse Service as provided in 33 U.S.C. 771–775, August 19, 1950, are as follows:

Appropriated, 1963	$2,000,000
Authorized, 1964	1,800,000
Requested, 1965	1,700,000
Decrease from 1964	100,000

Funds requested for fiscal year 1965 are for the continuation of annuities authorized. New claims under the Panama Canal Construction Act which was originally enacted in 1944, and under the Lighthouse Widows' Act of August 19, 1950, continue to be received each year, and are expected in 1965. Under the laws, such claims require retroactive payments to the beginning dates of the acts.

The budget request for fiscal year 1965 represents a decrease of $100,000 from the 1964 appropriation since it is expected that drops for death in fiscal years 1964 and 1965 will more than offset additions to the annuity rolls.

More detailed statements on the following pages indicate the basis of the estimated requirements for this appropriation.

Statement of funds required to finance payments to Panama Canal construction annuitants for the fiscal years 1964 and 1965

	Number	Annual rate	Funds required	
			Fiscal year 1964	Fiscal year 1965
Annuity roll as of June 30, 1963	1,645	[1] $853	$1,403,000	$1,403,000
Anticipated additions fiscal year 1964 retroactive to May 29, 1944 (3 additions times $853 average annuity times 20.08 years) [2]			+51,000	
Funds required to finance these 3 additions in fiscal year 1965	+3	853		+3,000
Subtotal	1,648		1,454,000	1,406,000
Less drops fiscal year 1964 for death [3]	−130	426	−55,000	
		853		−111,000
Funds required for fiscal year 1964	1,518		1,399,000	1,300,000
Anticipated additions fiscal year 1965 retroactive to May 29, 1944 (4 additions times $853 average annuity times 21.08 years) [2]	+4			+72,000
Subtotal	1,522			1,372,000
Less drops fiscal year 1965 for death	−175	426		−75,000
Funds required for fiscal year 1965	1,347			1,297,000

[1] The $853 average annuity is computed from the total annuity roll on June 30, 1963.
[2] The retroactive date refers to the effective date of the act providing such annuities and is the date from which retroactive benefits are computed. The third figure in the formula refers to the number of years' retroactive benefits to which new additions to the roll are entitled.
[3] Rate of $426 (annual rate of $853 for ½ year) used in computing amount of reduction in the roll for fiscal year 1964 and full rate of $853 used in reflecting this reduction in the roll for fiscal year 1965 requirements.

Statement of funds required to finance benefit payments to widows of former employees of the Lighthouse Servie for the fiscal years 1964 and 1965

	Number	Annual rate	Funds required	
			Fiscal year 1964	Fiscal year 1965
Annuity roll as of June 30, 1963	422	$900	$379,800	$379,800
Anticipated additions fiscal year 1964 retroactive to Sept. 1, 1950 [1] (2 additions times $600 annual rate times 7.583 years plus 2 additions times $900 annual rate times 6.25 years) [2]			+20,400	
Funds required to finance these additions in fiscal year 1965	+2	900		+1,800
Other (those not entitled to retroactive benefits) [3]	+30	450	+13,500	
		900		+27,000
Subtotal	454		413,700	408,600
Less drops fiscal year 1964 for death [3]	−29	450	−13,000	
		900		−26,100
Funds required for fiscal year 1964	425		400,700	382,500
Anticipated additions fiscal year 1965 retroactive to Sept. 1, 1950 [1] (2 additions times $600 annual rate times 7.583 years plus 2 additions times $900 annual rate times 7.25 years) [2]	+2			+22,100
Other (those not entitled to retroactive benefits) [3]	+26	450		+11,700
Subtotal	453			416,300
Less drops fiscal year 1965 for death	−30	450		−13,500
Funds required for fiscal year 1965	423			402,800

[1] The retroactive date refers to the effective date of the act providing such annuities and is the date from which retroactive benefits are computed. The third figure in the formula refers to the number of years retroactive benefits to which new additions to the roll are entitled.
[2] The annual rate of $600 was applied for the period Sept. 1, 1950, to Mar. 31, 1958, and the annual rate of $900 was applied for the period commencing Apr. 1, 1958, and subsequent thereto in accordance with Public Law 85-351, approved Mar. 28, 1958.
[3] Rate of $450 (annual rate of $900 for ½ year) used in computing amount of increase in roll for fiscal year 1964 and full rate of $900 used in reflecting this increase in roll for fiscal year 1965 requirements.

Mr. MACY. This is the program where with the passage of time the number of people covered is being reduced. We see on the Panama construction annuitants, on page 119, that the funds required for fiscal year 1965 cover 1,347 annuitants.

Mr. JONAS. Isn't increased longevity going to destroy your plan there? They live longer.

Mr. MACY. As people live longer the obligations continue longer; that is correct.

GOVERNMENT PAYMENT FOR ANNUITANTS, EMPLOYEES HEALTH BENEFITS FUND

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs, funded:			
1. Subscription charges	360,761	374,467	437,189
2. Administration	843	1,123	1,149
Total operating costs, funded	361,604	375,590	438,338
Capital outlay:			
3. Purchase of equipment	1	2	2
Total program costs, funded	361,605	375,592	438,340
Change in selected resources [1]	73		
Total obligations	361,678	375,592	438,340
Financing:			
Revenues and other receipts:			
Employees' salary withholdings	226,817	234,248	272,136
Agency contributions	130,957	131,961	135,027
Government's contribution for annuitants	6,742	8,745	11,469
Annuity withholdings	11,161	13,692	20,142
Interest revenue	1,169	1,359	1,469
Total revenues and other receipts	376,846	390,005	440,243
Unobligated balance brought forward:			
Cash	928	1,671	1,008
U.S. securities (par)	23,499	37,925	53,000
Unobligated balance carried forward:			
Cash	−1,671	−1,008	−911
U.S. securities (par)	−37,925	−53,000	−55,000
Financing applied to program	361,678	375,592	438,340

[1] Balances of selected resources are identified on the statement of financial condition.

Summary of sources and application of funds

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Obligations (from program and financing)	361,678	375,592	438,340
Increase (−) in gross unpaid obligations	−2,124	−1,359	−4,866
Gross expenditures	359,554	374,233	433,474
Revenues and other receipts (from program and financing)	376,846	390,005	440,243
Increase (−) in accounts receivable, net	−4,966	−1,107	−4,041
Applicable receipts	371,880	388,898	436,202
Trust expenditures	−12,326	−14,665	−2,728

Revenue, expense, and retained earnings

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Revenue	376,846	390,005	440,243
Expense	361,608	375,594	438,342
Net operating income	15,238	14,411	1,901
Retained earnings, start of year	24,593	39,831	54,242
Retained earnings, end of year	39,831	54,242	56,143

Financial condition

[In thousands of dollars]

	1962 actual	1963 actual	1964 estimate	1965 estimate
Assets:				
Treasury balance	10,579	8,480	8,070	8,798
U.S. securities (par)	23,499	37,925	53,000	55,000
Accounts receivable, net	27,606	32,572	33,679	37,720
Selected assets: Supplies [1]	41	20	20	20
Fixed assets, net	32	29	26	24
Total assets	61,757	79,026	94,795	101,562
Liabilities:				
Current	37,160	39,144	40,553	45,419
Deferred income (Government contribution for annuitants)	3	50	----------	----------
Total liabilities	37,163	39,194	40,553	45,419
Trust equity: Retained earnings	24,593	39,831	54,242	56,143
Analysis of trust equity:				
Unpaid undelivered orders [1]	94	187	187	187
Unobligated balance	24,427	39,596	54,008	55,912
Invested capital and earnings	73	49	46	44
Total trust equity	24,593	39,831	54,242	56,143

[1] The changes in these items are reflected on the program and financing schedule.

Object classification

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
12 Personnel benefits	360,761	374,467	437,189
25 Other services	843	1,123	1,149
31 Equipment	1	2	2
Total costs	361,605	375,592	438,340
Change in selected resources	73	----------	----------
Total obligations	361,678	375,592	438,340

Mr. EVINS. We shall take up next the Government Payments to Annuitants and Employees Health Benefits Fund, and the statute as set forth on page 121.

We shall include the general statement, pages 122 through 125.

(The pages follow:)

GENERAL STATEMENT

The Federal Employees Health Benefits Act of 1959 (Public Law 86-382, 5 U.S.C. 3006) provides that there shall be created an employees health benefits fund to be administered by the Commission and to be available without fiscal year

limitation for all payments to approved health benefits plans. The act further provides that the sums authorized to be contributed by the Government toward the health benefits subscription charge of any annuitant as defined therein (including civil service annuitants and survivors of deceased employees and annuitants, those retired under other Federal civilian retirement systems, and individuals in receipt of compensation under the Federal Employees' Compensation Act) shall be paid from annual appropriations which the act authorizes to be made for such purposes. The act also provides that the health benefits fund will be available to pay for administrative expenses incurred by the Commission, within such limitations as may be specified annually by the Congress.

More than 1.9 million employees and approximately 116,300 annuitants are participating in this program. For fiscal year 1963, 237.9 million was withheld from enrolled employees and annuitants and $137.7 million was contributed by the Government as its share of the cost of health benefits. An estimated $292.3 million will be deposited into the fund for fiscal year 1965 from amounts withheld from employees and annuitants and $146.5 million will be contributed by the Government.

The Government contribution to any plan is at the minimum amounts authorized by law including an add-on for administrative expense and a contingency reserve. In no case does the Government contribution exceed 50 percent of the total charge for any plan. The Government's overall share of the program's cost is 36.7 percent, leaving 63.3 percent to be contributed by participants. For the 1963 fiscal year $360.8 million was paid from the fund to approved health benefits plans as the cost of providing the health benefits. Approximately $373.7 million will be paid out for fiscal year 1964 and $422.1 million in fiscal year 1965. An amount equal to 3 percent of the contribution toward each plan is set aside in the fund to provide a contingency reserve for that plan. The contingency reserve can only be used to defray future increased rates, or to reduce contributions, or to provide increased benefits. Effective with the contract period beginning November 1, 1963, an amendment to the regulations provides for additional payments to experience-rated carriers from the contingency reserve when the reserves held by the carrier are less than a stipulated amount and the plan's contingency reserve held by the fund exceeds 1 month's subscription charges. Community-rated carriers may also receive additional payments from their plan's contingency reserve held by the fund, when properly justified. For fiscal year 1964 approximately $770,000 will be paid from the contingency reserve to qualified carriers and an estimated $15.1 million will be paid in fiscal year 1965. In addition, an amount equal to 1 percent of all contributions is set aside for administrative expenses incurred by the Commission in the administration of the act.

All covered employees have a choice between two types of Government-wide plans: (1) A service-benefit type plan and (2) an indemnity-benefit type plan. Many employees may also choose from among (1) employee organization plans, (2) group-practice prepayment plans, or (3) individual-practice prepayment plans. Most plans offer a further choice between two options, thus offering two levels of benefits. Contributions by participants are based on the type of enrollment (self or family) plan, and option they select. New enrollments and changes in existing enrollments are permitted upon the happening of certain events; e.g., marriage. Additionally, employees are by regulation guaranteed an unrestricted opportunity (i.e., an open season) to enroll or change an existing enrollment at least once every 3 years. The first such open season was held in October 1961 and the second was held in October 1963.

The estimate of the administrative expenses required for fiscal year 1965 includes the cost of printing and distributing revised brochures and other issuances to reflect benefit and subscription rate changes expected to become effective for the ensuing contract year.

Appropriation request, fiscal year 1965, Government payment for annuitants, employees health benefits fund

	Appropriated, 1963	Authorized, 1964	Estimated, 1965	Changes, 1965 compared with 1964
Payment to employees health benefits fund on behalf of enrolled annuitants	[1] $6,789,000	$9,500,000	$10,664,000	+$1,164,000

[1] Includes $1,623,000 unobligated balance carried over from fiscal year 1962.

The funds to be appropriated for payment to the employees health benefits fund on behalf of enrolled annuitants depend on the number of enrolled annuitants, the type of enrollment (self only or family) and the amount of the Government's contribution to subscription charges. This contribution is fixed by the Commission at the minimum of the range authorized by law.

Of the 116,300 annuitants enrolled at June 30, 1963, 64.1 percent were enrolled for family and 35.9 percent were enrolled for self only. Using projected experience under the Civil Service Retirement Act and other retirement systems affected, it is estimated that there will be a net increase of 40,050 in fiscal year 1964 and a further net increase of 44,900 in fiscal year 1965 in the number of annuitants with health benefits coverage. These figures are the basis for estimating funds required to cover the Government's contribution to these annuitants for fiscal year 1965.

As shown in the statement on the following page, total funds required for fiscal year 1965 amount to $11,469,000, however it is estimated that there will be an unobligated balance of $805,000 available for expenditure in fiscal year 1965, resulting in a net appropriation request of $10,664,000. There will be a continuing need for this appropriation in increasing amounts each year. Available indicators forecast that the Government's share of contributions for annuitants will increase by almost $3 million a year because of the growing number of annuitants with health benefits coverage.

INCREASE IN 1965

Mr. EVINS. There is $1,164,000 increase, from $9.5 million to $10,664,000 for these health benefit payments. Is all this required by law or statute?

Mr. MACY. Yes. This is required by the Health Benefits Act of 1959 and is the Government's share of the contribution to support the program for those employees who have retired. We have on the rolls 116,300 annuitants who are covered by this program.

The increase is expected to carry it over 200,000 by 1965. The actual cost would be $11,469,000 but we have $805,000 in an unobligated balance in this account, which makes it possible for this figure to be reduced to $10,664,000.

Mr. EVINS. We spoke of an increase from $9.5 million to $10,664,000, an increase of $1,164,000 for next year, Mr. Chairman. We will ask you to justify that for the committee.

Mr. MACY. This is to take care of the increase in the number of retired employees who are covered under this program.

It is our estimate that in fiscal year 1965 there will be approximately 40,000 additional annuitants added to the rolls who will continue coverage under the health benefits program.

Mr. EVINS. How do these 40,000 new people added to the rolls compare with recent years?

Mr. MACY. About the same. It has been running around 40,000 for some time.

GAO REPORT ON HEALTH BENEFITS COVERAGE FOR EMPLOYEES IN NONPAY STATUS

Mr. OSTERTAG. Mr. Chairman, you are familiar with the GAO report on this subject, the matter of free coverage of persons no longer in Government service?

Then I think there is another item which they mention, that the regulations are not in compliance with the act which specifies that free extension may be granted to employees who are on leave without pay but does not refer to the broader category of nonpay status. Are you familiar with that?

Mr. MACY. I know of the report but I think Mr. Ruddock could give the committee a more responsive accounting on that.

Mr. RUDDOCK. The Health Benefits Act authorizes the Commission by regulation to permit continued health benefits coverage for an employee, and the law uses the term "in leave without pay status" for up to a year.

Leave without pay can be used as a technical term as follows: After a formal application, approved by his agency, employee is granted something which is called leave without pay.

Under the Commission's regulations, we have construed leave without pay in the generic sense of covering the somewhat broader category of people who are not in pay status.

We did this primarily so that we would not have to terminate the health benefits coverage of a substitute in the postal service when, for example, he is not called to duty for a pay period. He is technically not in leave without pay but he is certainly in a nonpay status.

It was the decision of the Commission after consultation with its General Counsel that these words could be construed to cover people in nonpay status in the broad sense, and that is the group covered by the Commission's regulations.

The General Accounting Office in its report takes exception to this decision by the Commission and they indicate that the regulation operates to give free health benefits coverage to people who have abandoned the Federal service.

Mr. OSTERTAG. That is right.

Mr. RUDDOCK. I think this is a bit of an exaggeration in this sense: If the agency recognizes that an individual has abandoned his position it takes an action of separating him from the Federal service.

Mr. MACY. And once separated he clearly would no longer be covered.

Mr. RUDDOCK. Health benefits coverage is terminated.

It is easy to say you should terminate health benefits coverage when a man abandons his position but you cannot take action on it until you make the decision that he has abandoned his position.

Once that has been done the agency takes an action separating him from their rolls and this terminates his health benefits enrollment.

Mr. OSTERTAG. It is a question of the difference between resigning or retiring from a job as against a leave of absence. Is that right?

Mr. MACY. That is right.

Mr. OSTERTAG. There is a 1-year limitation in your statute, is there not?

Mr. RUDDOCK. That is right.

Mr. OSTERTAG. Have you adhered to that 1-year limitation?

Mr. RUDDOCK. Yes, sir. If the individual is in a leave without pay status for 365 days consecutively this operates as a termination of his health benefits coverage even though the agency does not take an action of separating him.

As I am sure you recognize, most instances in which a Federal employee benefits by having this coverage while in a nonpay status are because he is ill. He has been sick. He has exhausted his sick leave, exhausted his annual leave. This is the time he needs the health benefits coverage most in our opinion.

Mr. OSTERTAG. I have a note which I believe summarizes their recommendations. That is that free extension of coverage be granted only to employees on leave without pay for reason which is of benefit to the Government or because of illness.

Mr. MACY. That is right.

Mr. OSTERTAG. Two, that the agency be provided guidelines with regard to reasons to be considered as being beneficial to the Government. You mentioned the reasons in your statement.

Mr. RUDDOCK. The Commission has provided guidelines to agencies for use in granting leave without pay, and has cited instances not only of the type which are to the advantage of the Government but also the type where out of humane consideration you do for the benefit of the individual.

The Commission did not prescribe these rules for the purposes of health benefits coverage. They did it for the granting of leave without pay generally.

General Accounting Office in its report is advocating that we come out with a separate set of instructions which would tell the agency: "You should grant leave without pay for the purpose of extending health benefits coverage only for certain reasons," and they would stick to reasons which are narrower than those now used by the agencies. I think there is an honest difference of opinion here between the General Accounting Office and the Civil Service Commission. It was our view this was beneficial legislation.

Mr. OSTERTAG. Then there was a further recommendation that enrollment of any other employee is a nonpay status be terminated as of the end of the last pay period during which such employee is in a pay status.

COMMISSION RESPONSE TO GAO REPORT

You have partially answered my question. The question was whether or not these recommendations of the GAO have been considered and have you taken any steps to implement them?

Mr. MACY. The response on that is that we have analyzed the report and have endeavored to respond to it. I would be pleased to volunter a copy of our response for the record if that would be helpful.

Mr. OSTERTAG. Rsponse to the GAO?

Mr. MACY. Response to the GAO report; yes.

Mr. OSTERTAG. I think we should have it.

Mr. THOMAS. Yes.

Mr. MACY. The committee will have our view with respect to each of the points that they have made there.

(The information referred to appears beginning on p. 150.)

Mr. EVINS. The Civil Service Commission is not the one who determines initially those who go on leave without pay.

Mr. MACY. The agency does.

Mr. OSTERTAG. They also bring out the issue of overinsurance and means to curtail certain free coverage under the health benefits provisions. Their review shows there is a need for additional measures to minimize detrimental effects.

Mr. RUDDOCK. This is also covered in our letter. The viewpoint of the General Accounting Office is that there should be restrictions

thrown into insurance so a man cannot profit from an illness; in other words, so if he has two policies, three policies, four policies, make it impossible for him to collect more in insurance than what his expenses were.

In theory they are absolutely right. As a practical matter this is one of the biggest problems of the health insurance industry. It is a problem which is not peculiar to the Commission's administration of the Health Benefits Act.

In most of the contracts between the Commission and carriers there is a provision which restricts to 100 percent of expenses the amount that can be collected for more than one policy where the other policy is also an employer-sponsored policy—in other words, there are payroll deductions or in some way it is sponsored through the employer.

By knowing where the man works, by knowing where his wife works, you can determine whether there are group policies and you can ascertain the coverage.

The industry has found this impossible to do on individual policies, where a man just goes to his insurance agent, obtains a health benefits policy, and makes his payments directly. He feels when an illness occurs that since he has bought this policy, since he has paid the premium, he should be entitled to whatever benefits are provided by that policy.

General Accounting Office advocates in connection with the Federal program that when an individual has any outside insurance, private policy or otherwise, that we should limit the payment made under the Federal employees health benefits program.

We have considered this seriously. We think it is not administratively workable. We think if this problem is to be solved it should be resolved by the insurance industry in the underwriting process at the time the policies are sold rather than by the Commission as a Federal agency trying to cure this industry problem.

Mr. OSTERTAG. I think there is another point. First of all, do health benefits costs increase? Do the general overall costs go higher by virtue of free coverage of a person no longer in Government service?

Mr. MACY. I don't believe so. The number would be so small it would not have an impact on the rates.

Mr. OSTERTAG. I think the GAO report makes an issue of that.

Mr. RUDDOCK. The insurance does not cover anyone who is no longer in service

INSURANCE COVERAGE IN NONPAY STATUS

Mr. OSTERTAG. It is a question of when he is no longer in service. Let us say he is no longer in pay status, then.

Mr. MACY. That would be more accurate. As long as he is on the rolls, even if in a nonpay status, he is technically an employee.

Mr. OSTERTAG. Do you have any guidelines, regulations, or measurement for determination?

For example, an employee who has been covered by this insurance takes leave. He subsequently enters into other employment. Is he on nonpay status with the Government and employed elsewhere?

Mr. MACY. You mean with a private employer at the same time?

Mr. OSTERTAG. Any employer; yes.

Mr. RUDDOCK. This is possible. Under these circumstances——

Mr. OSTERTAG. I am using that only to try to get to the point.

Off the record.

(Discussion held off the record.)

Mr. RUDDOCK. The man you speak of would normally be a man who has asked his agency for a period of absence without pay. He has asked for leave, but said, "I am sick." Or he has said, "I want to take this course at this college. I have a chance to take a trip to Europe which will be very educational." He has convinced the agency that there is a reason why he should be granted leave without pay. The agency expects him to return.

If he changes his mind, or if he goes off working for some other employer, I can see how this would happen. But if the agency learns of it, and this is the point where the agency would effect a separation for abandonment of position.

Mr. MACY. There would be limited instances of cases of this type. The agency would be maintaining communication with somebody on leave without pay and determining just what their intentions were.

Mr. OSTERTAG. Who determines a case of this kind, the agency or the Civil Service Commission?

Mr. MACY. The agency does.

Mr. OSTERTAG. But you are the regulator of the agencies.

Mr. MACY. We write the regulations and they apply them in individual cases such as this.

Mr. IRONS. Leave without pay is a very minor item. There are very few employees at any point in their lives ever on leave without pay. The regulations here are limited to a maximum of 1 year.

Furthermore, it should be borne in mind that whatever cost is attached to that, two-thirds of that cost is borne by the employees themselves and one-third by the Federal Government, whatever it might be.

Mr. OSTERTAG. I understand that.

Mr. JONAS. They do not pay while on leave.

Mr. IRONS. The total Federal population pays.

Mr. JONAS. If a man takes leave to go to Europe or to go to college he doesn't pay a premium.

Mr. IRONS. He doesn't but somebody else does. The same thing goes with any kind of insurance program. If you relate it directly to the individual who dies, he doesn't pay as much as the individual who lives and does not die for 10 or 15 years.

CONSIDERATION OF NONPAY STATUS

Mr. JONAS. You do not increase the charge against the people working to make up that loss which you do not get?

Mr. IRONS. The people who are working pay for a total set of benefits. They pay for two-thirds of the benefits. Part of the benefits is the privilege of having this health insurance provision extended for those employees, including themselves.

Mr. THOMAS. You didn't take that into account when you shaped that?

Mr. IRONS. Yes, we did.

Mr. THOMAS. How many man-days, months or weeks did you figure?

Mr. IRONS. I don't recall now, but we took that into consideration, the number of days on leave without pay. It was a major issue with the insurance industry.

Mr. THOMAS. I am sure it was.

Mr. RUDDOCK. When the carriers originally calculated their rates they did calculate an amount to cover this leave-without-pay situation and in every instance their calculation exceeded what it amounted to at any given time.

Mr. THOMAS. That means the rates are high, then.

Mr. RUDDOCK. Originally they were high by an overestimate of the amount of leave without pay.

STATUTE ON COVERAGE IN NONPAY STATUS

Mr. JONAS. The GAO criticism is that you have taken a much broader scope than contemplated by the statute because your regulations cover people in a nonpay status. They say that is much broader than leave without pay.

Mr. IRONS. That is what they say. We disagree.

Mr. JONAS. Where is the statute? How can there be disagreement from what the statute says?

They say the statute says on nonpay status. Does it not say that? You construed it leave without pay.

Mr. OSTERTAG. Let me read section 7(b) of the act. It states:

> An employee enrolled in a health benefit plan under this Act who is placed in a leave without pay status may have his coverage and the coverage of the members of his family continued under such plan for a period not to exceed 1 year in accordance with regulations prescribed by the Commission. Such regulations may provide for the waiving of contributions by the employee and the government.

Mr. IRONS. That is precisely what we do.

Mr. JONAS. Don't your regulations say nonpay status?

Mr. IRONS. They say nonpay status up to 1 year.

Mr. JONAS. Do you have the regulations here?

Mr. IRONS. No, sir.

Mr. JONAS. General Accounting Office states your regulations call for nonpay status and that is a broader term than leave without pay.

Mr. MACY. I am unable to see it.

Mr. JONAS. They cite the Federal Personnel Manual, definitions of the terms "leave without pay," "absence without leave," "nonpay status, including manuals of the larger agencies." They say it leaves no reasonable doubt as to the meaning of these terms; namely, that nonpay status is a broader category than leave without pay.

Mr. IRONS. That is their opinion. I cannot see it that way.

Mr. OSTERTAG. Can you bring it down to your opinion and what your interpretation of the statute means with regard to this nonpay status to which Mr. Jonas refers? A question arises as to whether or not you have taken into account this GAO report and have changed anything or considered changing your regulations or tightening down on the whole picture.

Mr. IRONS. We have considered it and decided as far as we are concerned we are right and they are wrong.

INCREASE IN COST DUE TO LEAVE-WITHOUT-PAY PROVISIONS

Mr. THOMAS. Gentlemen, regardless of the terminology, extended leave without pay, if you give to every person on the Federal payroll a right up to 1 year to enjoy this insurance without the employee receiving a nickel's compensation from the Government, and the converse of that is without his paying 5 cents into the fund, just how much does that increase the rate to the remainder of the employees?

Mr. OSTERTAG. I raised that question, Mr. Chairman, what effect it had on costs.

Mr. THOMAS. How much? It is bound to increase it.

Mr. IRONS. Precisely as you said it, it would give the right to the employee to leave a year without pay. It is not a right but a privilege granted by the agency.

Mr. THOMAS. You are getting technical now. We know the difference between rights and privileges, too. He doesn't make any contribution to that fund, though. How much more does it cost?

Mr. IRONS. Nothing to the Government.

Mr. THOMAS. Somebody is going to pay for it.

Mr. IRONS. There is no argument about that. It is a cost item borne by the total insured population of the Government.

Mr. THOMAS. That is all that is involved here.

Mr. IRONS. I don't recall the costs offhand.

Mr. THOMAS. How much is it?

Mr. JONAS. If there is a lot of that it will result in increasing the rates when the contracts are renewed.

Mr. IRONS. Sure. The percentage is very, very small. I don't recall it now.

Mr. JONAS. You said the rest of the working population paid it.

Mr. IRONS. That is right.

Mr. JONAS. They will pay it in increased premiums.

Mr. IRONS. That is right.

Mr. JONAS. When the contract is renewed?

Mr. IRONS. That is right.

Mr. JONAS. Because premiums are based on experience.

Mr. THOMAS. You said it was a matter of some controversy and everybody gave it consideration. How does your memory serve you? Was it 1 percent increase, 2 percent?

Mr. RUDDOCK. A fraction of 1 percent.

Mr. THOMAS. Can you insert in the record at this point the correct figure?

Mr. RUDDOCK. Yes, sir.

Mr. THOMAS. What is your horseback opinion now as to the rate of increase?

Mr. IRONS. About three-quarters of 1 percent is my recollection.

Mr. THOMAS. When you go back correct the record at this point.

(The information submitted follows:)

During the final pay period in June 1963, only fifty-five one-hundredths of 1 percent of enrolled employees were in a nonpay status.

Mr. OSTERTAG. The whole fine point of it is this, it seems: The law is intended to protect people who have been in service for 1 year after they leave the service if they are on leave, but it does not mean, and I do not believe it was intended to mean, to give them carte blanche protection for 1 year after they leave the Federal Government.

Mr. IRONS. And they do not get it.

COMMISSION RESPONSE TO GAO REPORT

Mr. OSTERTAG. Mr. Chairman, I believe we should have the Commission's response in the record to the GAO report.

Mr. MACY. It will be provided in full at this point.

Mr. OSTERTAG. Put it in at this point.

Mr. MACY. Yes, sir; for the record.

(The information follows:)

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., July 26, 1963.

HON. KERMIT GORDON,
Director, Bureau of the Budget,
Washington, D.C.

DEAR MR. GORDON: This refers to the May 1963 Comptroller General's report to the Congress, entitled "Need To Deter Overinsurance and To Curtail Certain Free Coverage," on the Federal employees health benefits program administered by the Civil Service Commission. I find it gratifying that in a new program of this size and complexity the General Accounting Office review disclosed no significant matters requiring the attention of the Commission, except the subject items.

As suggested by Bureau Circular No. A–50, I am enclosing a copy of Mr. Ruddock's letter dated December 27, 1962, commenting on the draft report. I believe these comments succinctly state our position on the two recommendations in the report but I would like to amplify.

With respect to deterring overinsurance, our two largest carriers, Blue Cross-Blue Shield and the Aetna, recommend strongly against extension of "double coverage" restrictions to individual policies because they have found them impracticable to administer. Perhaps the main problem in this regard stems from the fact that obtaining information concerning the existence and details of the individual policy depends entirely on the claimant's willingness to divulge it. Information concerning individual policies is withn the exclusve knowledge of the insured and cannot be checked without his cooperation. Thus the uncooperative claimant avoids the restriction and the cooperative one does not.

There are, of course, other problems not mentioned in the report. For example, the myriad types of individual policies sold and the large number of companies which sell them make effective verification of coverage and a determination of benefits payable in a particular case both difficult and costly; individual policies are often deliberately purchased to supplement group coverage and the purchaser strongly resents being penalized for his prudence; the interminable delays in claims settlements resulting from having to verify individual coverage with claimants and carriers would destroy the acceptance by purveyors of medical service of group insurance benefit assignments in lieu of cash.

It should be noted that the Comptroller General's report states that the extent of overinsurance under the Government program is unknown but assumes there must be some because of studies of overinsurance in other programs. In this connection, the following excerpt from a report to the National Association of Insurance Commissioners [1] is pertinent:

"The Michigan population study, which other studies support, indicates that although 12½ percent of the families have more than one contract, the actual overlap in coverage is about 4 percent; and even among this 4 percent, the overlapping insurance does not always or even usually result in payment to the individual of more than the total cost of illness, when all costs are considered."

[1] June 19, 1962, report entitled "Overinsurance," Artemas C. Lealie.

Of interest also is the position of the Department of Health, Education, and Welfare whose advice we sought at the time the Federal employees health benefits program was being implemented. In a January 27, 1960, letter to Roger Jones, then Chairman of the Commission, Arthur Flemming, then Secretary of the Department of Health, Education, and Welfare, said:

"I am of the opinion that the regulations you propose to promulgate should not deal with this subject. My reasons in essence are that a prohibition of duplicate coverage would be unworkable and could, in some instances, be inequitable.

"Furthermore, the potentially broad benefits possible under the [Federal employees health benefits] program will tend to reduce multiple policy holding by employees. Unnecessary expenditures from the insurance fund and instances of individuals profiting by being ill would be negligible."

Our 3 years of experience in administering the Federal employees health benefits program confirm the wisdom of the advice of Secretary Flemming and of our two largest carriers. Almost invariably, individual health insurance policies offer scant benefits at costly premiums: with the comprehensive benefits offered by plans under the Federal employees health benefits program we believe that purchase of expensive duplicate individual coverage is self-limiting; that overinsurance (and the ills it fosters) resulting from duplicate individual coverage is minimal; and that claim savings, if any, which could be realized by having restrictions against duplicate individual coverage would be exceeded by the administrative expense involved in their enforcement. We have not observed, nor has anyone presented evidence of any abuse under the Federal program which would merit consideration of adopting costly restrictions in this area.

With respect to the propriety of continuing health benefits coverage of employees in a nonpay status, we had the Comptroller General's comments, which were in the same vein as his report, in 1960 when we published our proposed regulations. It was the well-considered view of the Commission in 1960 as it is now that, although there is a close question of legal construction of the language in the health benefits law, the words "leave without pay" as used in section 7(b) are not used as a term of art but rather in the generic sense of "nonpay." We are certain that Congress intended the words not be strictly construed if for no other reason than that to do so would deny the benefit intended by this section of the law to 150,000 substitute postal employees who are almost never on "leave without pay" but who very often are in "nonpay" status subject to call.

The Comptroller General's report recommends that free coverage be granted only to employees on leave without pay for a reason which is of benefit to the Government and that we provide guidelines as to what is of benefit to the Government. This criterion, except in certain clear-cut cases, can obviously be a matter of opinion. For example, what benefit inures to the Government when leave without pay is granted for maternity? It could well be maintained that the Government derives a benefit from the return to duty of any experienced employee—including one who is absent without leave.

We feel strongly that in a beneficial program such as health benefits, benefit to the Government should not be the only criterion for granting free coverage; we believe that the needs (other than illness) of employees should also be considered. The granting of leave without pay is, of course, a matter of agency discretion. Nevertheless, we have published guidelines for the granting of leave without pay (Federal Personnel Manual, p. L–1–7) which most, if not all, agencies observe and which are based on both benefit to be derived by the Goverment and the serious and legitimate needs of employees. We believe these guidelines are equitable to the Government and employees and see no compelling reason for having a second, more restrictive set of guidelines for health benefits purposes.

By far the greatest amount of leave without pay is taken in periods of less than 31 days. Under the health benefits law an employee receives a free temporary extension of coverage (fixed by regulation at 31 days) when his enrollment terminates. As a practical matter, if we were to adopt the Comptroller General's recommendation, the expense involved in needlessly terminating and reregistering employees in short-term nonpay status would exceed the cost of providing free coverage for the relatively infrequent long-term nonpay absence.

We see considerable merit in the Comptroller General's point that free health benefits coverage should not be provided to employees who have abandoned their positions. But here again we see no practicable solution. The short-term

absentee-without-leave would be entitled to free coverage during the absence under the free 31-day temporary extension of coverage provision previously mentioned. For the long-term absentee-without-leave, a determination by the agency that he has abandoned his position should, under any reasonable personnel policy, result in an agency action of separation which effectively terminates health benefits enrollment.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

U.S. CIVIL SERVICE COMMISSION,
BUREAU OF RETIREMENT AND INSURANCE,
Washington, D.C., December 27, 1962.

Mr. LLOYD A. NELSON,
Associate Director, Civil Accounting and Auditing Division, U.S. General Accounting Office, Washington, D.C.

DEAR MR. NELSON: Thank you for the opportunity to comment on the draft report to the Congress on certain aspects of the Federal employees health benefits program. Thank you also for the opinion expressed on page 8 of the draft that the Commission has generally administered the program in compliance with the act and in the interests of the employees and the Government.

In reviewing the draft report we have found a few items which, strictly speaking, could be considered technical inaccuracies and have, without comment, indicated suggested corrections in the text of the report, copy enclosed.

On the second page of the draft letter to the President of the Senate and the Speaker of the House of Representatives, and on page 19 of the draft report, you refer to "persons who have left the Government service"; on page 20 a similar reference is to "persons in nonpay status who are no longer bona fide Government employees." I believe you mean to refer to persons who are absent without leave (AWOL), or perhaps more precisley, to such persons among AWOL's as the employing agency has decided have effectively abandoned their positions. I would comment that until they are separated by their agencies these persons are bona fide Government employees and have not left Government service.

On page 7 of the report there is this text:

"Following is a statement of the income and expenses of the fund for the year ending June 30, 1961, based on data published by the Commission without verification by us."

I know you customarily use the "without verification by us" to denote that your office has not audited the figures, and that among auditors, this is the only meaning attributed to the quoted phrase. However, to readers of your report who are not familiar with this usage of the phrase, it may be easily misunderstood to have a different connotation—i.e., it may seem to impeach the figures which follow or to imply criticism of the Commission for publishing data without your verification. Therefore, I would prefer that the quoted phrase be deleted and a less prejudicial one be substituted; or I suggest that you can rely on the "based on data published by the Commission" as disassociating your office from any responsibility for the accuracy of the published figures.

Although we share your desire to minimize abuses to whatever extent they are fostered by double coverage, your draft report does not touch upon the many difficulties involved in implementing the recommendations on deterring overinsurance. Our experience with existing restrictions demonstrates that they result in unconscionably long delays in setting claims because details of the overlapping coverage must be verified, and in indignation on the part of the insured when, despite explanations, he cannot understand why he does not get full benefits under both the policies for which full premiums are being paid. For these reasons alone, I believe that whatever is ultimately done to control double coverage arising from individual insurance may prove to be feasible and effective only if done by the industry at the time of underwriting rather than at the time of claims settlement. As your report recognizes, the industry is aware of the situation and is working on it.

We do not agree with the position in the draft report that the term "leave without pay" is used in the health benefits law with intent to extend coverage without current payment of premium only to employees who are on leave without pay in the strictest technical use of the term. The Commission's regulations

were approved on the basis of its interpretation that the term is used in the law in its generic sense and with an intent to embrace all types of nonpay status. The Commission will reappraise its exercise of the discretionary authority granted by the law in the light of such recommendation as you may include in your final report.

If you believe further discussion of the draft report will be useful to you or us, please call me.

Sincerely yours,

ANDREW E. RUDDOCK, *Director.*

RETIRED EMPLOYEES HEALTH BENEFITS PROGRAM

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs, funded:			
1. Subscription charges to uniform plan carrier	19,373	21,840	21,428
2. Government contributions to annuitants with private plans	6,131	6,660	6,534
3. Administration	228	332	347
Total operating costs, funded	25,732	28,831	28,309
Capital outlay:			
4. Purchase of equipment		1	1
Total program costs, funded	25,732	28,832	28,310
Change in selected resources [1]	−1		
Total obligations	25,731	28,832	28,310
Financing: Revenues and other receipts:			
Annuity withholdings	12,445	13,716	13,457
Government contributions	13,286	15,116	14,853
Interest revenue	110	150	200
Total revenues and other receipts	25,841	28,982	28,510
Unobligated balance brought forward:			
Cash		137	87
U.S. securities (par)	128	100	300
Unobligated balance carried forward:			
Cash	−137	−87	−87
U.S. securities (par)	−100	−300	−500
Financing applied to program	25,731	28,832	28,310

[1] Balance of selected resources are identified on the statement of financial condition.

Summary of sources and application of funds

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Obligations (from program and financing)	25,731	28,832	28,310
Increase (−) or decrease in gross unpaid obligations	−157	316	13
Gross expenditures	25,574	29,148	28,323
Revenues and other recipts (from program and financing)	25,841	28,982	28,510
Increase (−) in accounts receivable, net	−124		
Applicable receipts	25,717	28,982	28,510
Trust expenditures	−143	166	−187

Revenue, expense, and retained earnings

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Revenue	25,841	28,982	28,510
Expense	25,732	28,832	28,310
Net income for the year	108	150	200
Retained earnings, start of year	142	250	400
Retained earnings, end of year	250	400	599

Financial condition

[In thousands of dollars]

	1962 actual	1963 actual	1964 estimate	1965 estimate
Assets:				
Treasury balance	83	1,756	1,391	1,378
U.S. securities (par)	1,631	100	300	500
Accounts, receivable, net	1,022	1,145	1,145	1,145
Selected assets: Supplies [1]	4	4	4	4
Fixed assets, net	9	9	8	8
Total assets	2,749	3,014	2,848	3,035
Liabilities:				
Current	2,193	2,435	2,435	2,435
Government contribution for annuitants	415	329	13	
Total liabilities	2,607	2,764	2,448	2,435
Trust equity: Retained earnings	142	250	400	599

[1] Changes in this item are reflected in the program and financing schedule.

Analysis of trust equity

[In thousands of dollars]

	1962 actual	1963 actual	1964 estimate	1965 estimate
Unobligated balance	128	237	387	587
Invested capital and earnings	14	12	12	12
Total trust equity	142	250	400	599

Object classification

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
12 Personnel benefits	25,504	28,500	27,962
25 Other services	228	331	347
31 Equipment		1	1
Total costs	25,732	28,832	28,310
Change in selected resources	−1		
Total obligations	25,731	28,832	28,310

Mr. EVINS. We will turn to the Government contributions, retired employees health benefit fund.

Insert pages 134 through 136 in the record.

(The pages follow:)

GENERAL STATEMENT

The Retired Federal Employees Health Benefits Act (Public Law 86-724, 5 U.S.C. 3053) provides that there shall be created a retired employees health benefits fund to be administered by the Commission, in which retired employee and Government contributions are to be deposited. This fund is available to finance (1) the payment of subscription charges to an approved carrier for those qualified employees and survivors who enroll in the Government-sponsored uniform health benefits plan; (2) the contribution to qualified employees and survivors who retain or purchase private health insurance; and (3) the payment of expenses incurred by the Civil Service Commission in administration of the act.

The act further provides that the amounts authorized to be contributed by the Government toward the health benefits subscription charge of any annuitant as defined therein (including civil service annuitants and survivors of deceased employees and annuitants, those retired under other Federal civilian retirement systems, and individuals in receipt of compensation under the Federal Employees Compensation Act) shall be paid from annual appropriations which the act authorizes to be made for such purpose.

This act provides a health benefits program for those qualified annuitants and survivors who are not eligible to enroll in the active employees program (under Public Law 86-382, 5 U.S.C. 3006) because of termination of the employee's service prior to the effective date of that act. All qualified retired employees and survivors may elect to enroll in the Government-sponsored uniform plan (for which the Commission has contracted with the Aetna Life Insurance Co.); to receive a Government contribution toward payment of other health insurance they may have; or not to enroll under the act. Enrollees in the Government-sponsored uniform plan initially had three choices: (1) "Basic" health coverage, providing first-dollar hospital and surgical benefits; (2) "major medical" health coverage, providing protection against castrophic medical expenses; and (3) both "basic" and "major medical" coverages. However, "major medical" coverage is not now available to those retirees and survivors who failed to elect it on initial enrollment. The amounts paid by annuitants enrolled in the uniform plan are withheld from their monthly annuity payments. Those who have private health insurance receive a Government contribution, which is added to their monthly annuity, equal in amount to the fixed for self only or family enrollment in the uniform plan.

The amount of Government contribution toward enrollments of annuitants (i.e., the rate of expenditure of the funds appropriated to the retired employees health benefits fund for such contributions) depends on the type of enrollment (self only or family) and the amount specified by the Commission, within a range authorized by law, as the Government's contribution toward their subscription charges.

Because of an increase in premium for the uniform plan and generally increasing premiums for private plans, the amount of the Government contribution was increased, effective July 1, 1963, from $3 to $3.50 a month for self only and from $6 to $7 a month for a family enrollment. As of June 30, 1963, there were 240,600 participants in this program, 52.4 percent of whom were enrolled for self only and 47.6 percent of whom were enrolled for family. Enrollees in the Government-sponsored uniform plan numbered 132,200, and in private plans the enrollment was 108,400. It is estimated that there will be approximately 231,600 participants in fiscal year 1965. The decrease is expected to occur primarily because of death of annuitants.

For fiscal year 1964 it is estimated that at least $21.8 million in premiums will be paid to the carrier of the uniform plan and $6.7 million will be paid to annuitants as the Government contribution toward the cost of their private health insurance plans. Approximately $21.4 million will be paid out for fiscal year 1965 in premiums to the carrier of the uniform plan and $6.5 million will be paid to those enrolled in private plans.

Appropriation request, fiscal year 1965, Government contribution, retired employees health benefits fund

	Appropriated, 1963	Authorized, 1964	Estimate, 1965	Changes 1965 compared with 1964
Payment to retired employees health benefits fund on behalf of enrolled retirees	[1] $13,200,000	$14,800,000	$14,840,000	+$40,000

[1] Includes reappropriation of $5,200,000 unexpended balance carried over from fiscal year 1962.

The Government contribution on behalf of those enrolled for fiscal year 1963 was $13,286,000, and for fiscal year 1964 an estimated $15,116,000 will be contributed by the Government, including $332,000 for administrative expenses of the Commission. Based on experience with those already enrolled and applying this to all retirement systems having annuitants in the program, it is estimated that the Government's contributions for fiscal year 1965 will amount to $14,853,000, including $348,000 for administrative expenses of the Commission. However, it is estimated that there will be an unobligated balance of $13,000 carried over from fiscal year 1964 which will be available for expenditure in fiscal year 1965, resulting in a net request for fiscal year 1965 of $14,840,000.

DIFFERENCE BETWEEN HEALTH PLANS

Mr. EVINS. Will you for the record summarize the difference between these two plans, the one we have been discussing and this one?

Mr. MACY. The one we have been discussing relates to the health benefits that are provided for employees who have retired since the act of 1959 went into effect. The retired employees health benefit fund, authorized by a new statute in 1960, is for those employees who retired prior to that.

Mr. THOMAS. Why can you not combine the two programs? The only difference is one is 3 to 5 years older than the other. Why can you not combine the two? What is the reason for having two programs?

Mr. IRONS. May I respond to that, Mr. Chairman?

Mr. MACY. Please.

Mr. IRONS. The first program applies to the employees. Their benefit structure and their premium rate continues precisely the same after they retire.

The second program which is applicable to those employees who were retired and on the annuity rolls before the active employees health benefit program was established, is a closed group, a group where——

Mr. THOMAS. Are the rates and benefits different?

Mr. IRONS. The rates and benefits are different.

Mr. THOMAS. Two separate and distinct items?

Mr. IRONS. Yes, sir.

Mr. THOMAS. Even though the two groups work for the same people, how much difference is there in the rates? It cannot be more than 3 to 5 years, the difference in the two age groups.

Mr. IRONS. Their benefits are totally different.

Mr. THOMAS. What is the difference in the benefits?

Mr. IRONS. The benefit structure of the retired program is not as liberal as the one for active employees.

Mr. THOMAS. That is understandable.

Mr. IRONS. It would be quite a job to illustrate the difference.

Mr. THOMAS. You could not combine them from an administrative point of view?

Mr. IRONS. They are combined from an administrative point of view. The same bureau administers both programs.

Mr. THOMAS. You have a different limitation on administrative expense.

Mr. MACY. There are two limitations. We would prefer to have a single limitation as they are both handled in one organization.

Mr. THOMAS. Where is the limitation under the present employees health insurance plan?

Mr. MACY. There is an expense limitation on the administration of each of the health benefits programs.

Mr. THOMAS. That is what I want. I do not want the annuitants included.

Mr. MACY. Less the annuitants under the employees program? What the breakout is?

Mr. THOMAS. Yes.

Mr. MACY. The chairman's question is, Can we separate the annuitant side of the employee fund from the active employees insofar as the administrative cost is concerned?

Mr. THOMAS. That is right.

Mr. MACY. I do not believe we have those figures.

Mr. IRONS. It would be better, if it could be done, to combine the administrative limitations of the retired health benefits program with the regular health benefits program.

Mr. THOMAS. What is a good reason for one limitation?

Mr. IRONS. Just because you have greater facility for utilization of people. You would not have to identify three-quarters of an employee's day on retired health benefits and one-quarter on regular health benefits.

Mr. THOMAS. Are the benefits the same?

Mr. IRONS. The benefits of the programs are totally different.

Mr. THOMAS. Different?

Mr. IRONS. Yes.

Mr. THOMAS. What he is paying for now is going to be exactly what he gets after he retires. It is the same, is it not? You are taking his money now.

Mr. IRONS. We are not on the same wavelength. I was talking about the retired health benefits program.

Mr. THOMAS. I am asking for a separate and distinct figure for the administrative expense of the present employees who are paying on their retirements.

Mr. IRONS. As contrasted from the annuitants under the employee program?

Mr. MACY. The same plan.

Mr. IRONS. I do not think it is possible to obtain.

Mr. RUDDOCK. Administrative cost figures have not been kept that way.

Mr. THOMAS. Why? There is bound to be a good reason. Why?

Mr. IRONS. They are not under the same act.

Mr. THOMAS. That is what I am trying to get you to say.

Mr. RUDDOCK. The Health Benefits Act of 1959 says there will be a limitation on the expenses of the Commission in administering that act, and of course the administration includes——

Mr. THOMAS. All you are doing now is collecting the money from him. He is not getting any annuity. You are collecting the money and after he becomes an annuitant you pay it out?

Mr. MACY. There are claims payments being made to active employees also.

Mr. THOMAS. Very little though. What percentage of claims payment is paid to your active employee?

Mr. MACY. Mr. Ruddock, can you give us a relative figure as to the volume of claims for active employees and annuitants under the regular program?

Mr. RUDDOCK. My recollection is that in the last year the benefits paid with respect to annuitants was about 8 percent of the total under the 1959 Employees Health Benefits Act. The number of annuitants under that act, of course, keeps growing.

Mr. MACY. We had 116,000.

Mr. THOMAS. You are right.

Mr. MACY. Whereas the active employees numbered 1.6 million, so that clearly the larger portion will be the active program.

Mr. THOMAS. Your annuitants program has not reached its height, yet, and it is growing a little faster right now; is it not. What is the appropriation?

Mr. EVINS. $14,840,000.

Mr. MACY. The annuitant portion of this program, we estimate, will grow at a rate of about $3 million a year, based upon projected retirements from the active force. The increase this year is actually estimated to be about $1 million in total funds.

Mr. THOMAS. Why can you not separate the health program of the employees who are paying now from those who are retired? We are not talking about retirement funds. We are talking about a health fund.

Mr. EVINS. Let me read this, Mr. Chairman. This is in the general statement. [Reading:]

The Retired Federal Employees Health Benefits Act (Public Law 86-742, 5 U.S.C. 5053) provides that there shall be created a retired employees health benefits fund to be administered by the Commission, in which retired employee and Government contributions are to be deposited. This fund is available to finance (1) the payment of subscription charges to an approved carrier—that is an insurance carrier, an approved carrier—for those qualified employees and survivors who enroll in the Government-sponsored uniform health benefits plan; (2) the contribution to qualified employees and survivors who retain or purchase private health insurance—by private health insurance, they also contribute to the fund—and (3) the payment of expenses incurred by the Civil Service Commission in administration of the Act.

Mr. THOMAS. Mr. Evins, you have an increase in your limitation. This year you go from $1,125,000 up to $1,151,000, in the employee program and in the other program you go from $392,000 to $348,000.

That is not a recurring item this year. You show a reduction of $44,000. The other one you show an increase of $26,000.

LIMITATIONS AND OBLIGATIONS

Did you have any carryover under either of your two limitations last year?

Mr. IRONS. No, sir.

Mr. THOMAS. Are you sure?

Mr. MACY. It is an annual limitation.

Mr. THOMAS. Did you use all your limitations?

Mr. WILLIAMS. I think we——

Mr. THOMAS. You used all of it?

Mr. WILLIAMS. I'm not sure.

Mr. THOMAS. Do you have your records here?

Mr. WILLIAMS. The statement we have shows only the balances in the appropriated funds.

Mr. THOMAS. Did you have any unused part of your limitations?

Mr. WILLIAMS. It works this way, Mr. Chairman: The limitation is simply the maximum amount we can use. We use only as much of it as is required.

Mr. THOMAS. That is what I am asking you, did you use all of it or did you have any of it you did not use?

Mr. WILLIAMS. We do not have that information with us.

Mr. THOMAS. You do not have your records here?

Mr. WILLIAMS. No, sir. We can supply it. It is available.

Mr. THOMAS. Insert it at this point in the record.

Mr. EVINS. Give us for the record the status of the limitation for the first employee's health benefit fund and the status of the limitation for the retired employees health benefit fund.

Will you place that in the record, please?

Mr. IRONS. Yes, sir.

Mr. EVINS. That will be for fiscal year 1963.

(The information supplied follows:)

Employees health benefit fund, fiscal year 1963

Limitation	$1,099,365
Obligations	932,884

Retired employees health benefit fund, fiscal year 1963

Limitation	$388,490
Obligations	226,227

INCREASES IN CONTRIBUTION FOR RETIRED EMPLOYEES HEALTH FUND

Mr. EVINS. I notice, Mr. Chairman, in 1963 the Congress appropriated $13.2 million for this second employee's health benefit fund, $14.8 million in 1964, and you are requesting $14,840,000 for 1965, an increase of $40,000.

Tell us why the $40,000 is needed and necessary and desirable and why it is going up each year?

Mr. MACY. The increase in this particular fund is almost entirely attributable to an increase in premium rates. The number covered in this program, the number of individuals, actually falls off each year, because of the death of those that are covered. You will see in the table on page 137 of the justifications that we started out the fiscal

year with an enrollment of 240,000 and we are estimating that funds will be required in 1965 for an average enrollment of 231,600. That is a reduction in the number covered.

The increase required here is due to a necessary increase in the premium rate.

Mr. EVINS. Do you have any type of control over the carriers in protecting the Government employees with respect to the rates? After you get them all on the rolls, do you let them hike the rates up again?

Mr. MACY. There is a contract period with the carriers and for each contract period a review is made of experience in an effort to keep the rates as low as possible. This is expensive coverage. These are older people. The average age in the group is going up because there are no younger individuals being added to the group.

Mr. EVINS. Did you ever know of an insurance company that ever voluntarily reduced its rates?

Mr. MACY. No.

Mr. EVINS. I never heard of any, either.

Mr. SHIPLEY. How many carriers do you have?

Mr. RUDDOCK. There is only one carrier. There is a contract with the Aetna Life Insurance Co. and with other insurance companies acting as reinsurers.

Mr. EVINS. When was the act passed originally?

Mr. RUDDOCK. In 1960.

Mr. EVINS. You haven't had much experience. How many rate increases have you had?

Mr. RUDDOCK. There has been one increase under the uniform plan. Under this program, the retired employee, one who retired before July 1, 1960, may take his health insurance coverage in a private plan, for example his local Blue Cross-Blue Shield, or some insurance company, or an employee organization. When he does that he gets the same Government contribution that is paid with respect to a person enrolled in the uniform plan. We merely add it to his annuity check. If he is enrolled in a private plan for self only, we add $3.50 to his monthly annuity check. If he is enrolled for self and family we add $7.

Mr. EVINS. They do not have to go out and solicit business. They do not have to advertise. They do not have to employ salesmen. It is automatic. You only have to sign a form. They do not have very much expense. I think you ought to insist upon holding the rates down from the time it was initially entered into and, if possible, look toward a reduction because of the volume of business which the Grovernment provides.

Mr. OSTERTAG. Is this a matter of negotiation?

Mr. MACY. As far as the private plans are concerned the Government has no part in determining the rates. It is in the uniform plan, where there is a contract negotiated between the Government and the carrier.

Mr. JONAS. Apropos of the comment of my friend from Tennessee, actually the rate is pretty low, is it not, as insurance rates go?

Mr. RUDDOCK. Yes, sir; for insurance of this type, in my opinion it is.

Mr. JONAS. I know I had some insurance for my son when he became 21. He had to come off my policy. I pay a whole lot more for his insurance than I do the family plan.

Mr. MACY. Yes. This is expensive insurance. These are older people.

INCREASE IN RATES

Mr. THOMAS. On the point Mr. Evins raised, why should the premium go up? Is it purely because of the risk, age involved, or the groups?

Mr MACY. The age and the increased cost involved because of the advancing age and the increased costs of medical care generally.

Mr. THOMAS. What does your price look like today on our health policy as compared to the original contracts you made with the carriers?

Mr. RUDDOCK. With respect to the program for active employees there has been no rate increase in the Government-wide service benefit plan—Blue Cross-Blue Shield. That plan covers about 55 percent of all employees. There has been no increase in the rate since the program began in July of 1960.

The second largest plan is the indemnity plan, the insurance industry plan. In that there has been a rate increase of 70 cents biweekly in high option family coverage. That increase, effective November 1, 1963, was made for the express purpose of providing a more generous maternity benefit.

Mr. THOMAS. I think it has been remarkable the rates have been held down in the health. Mr. Evins was looking at the life of some of the older groups, the first retired group. You may have a point there. Certainly you have done a magnificent job holding that rate down.

Mr. OSTERTAG. That is right.

NEGOTIATION AND RENEWAL OF CONTRACTS

How often are the contracts negotiated and do they have to be renewed?

Mr. IRONS. They are on an annual basis.

Mr. BOLAND. You just did that a couple of months ago; did you not?

Mr. MACY. Yes; November 1.

Mr. OSTERTAG. What is your experience? Do they go up each time?

Mr. MACY. No. As Mr. Ruddock indicated the Blue Cross-Blue Shield plan, with 55 percent of the coverage, remains the same. The next largest has gone up 70 cents biweekly in order to provide more liberal benefits on the high option family plan. I think we can generalize by saying that on the active employee program, over a period of 4 years, or 3 years, the rates have remained rather stable.

Mr. OSTERTAG. Because there is an option as to plan, is it possible that some day they would be out of balance sufficiently that you would have to abandon one or the other?

Mr. MACY. No.

OPPORTUNITY TO CHANGE HEALTH PLANS

You see, we have an open season every 2 years, which makes it possible for the individual to change if he wishes. There tends to be a degree of competition that forces the plans to be somewhat in line with each other.

Mr. OSTERTAG. I see. That is good.

Mr. MACY. We found that there were several thousand employees who made some changes during the open season that we had last October.

RECENT RATE INCREASE IN INDEMNITY PLAN

Mr. THOMAS. What percentage was that increase?

Mr. RUDDOCK. About 10 percent, but that was 10 percent only for the high option for the man with a family.

Mr. THOMAS. What part of that is your total insurance? Fifty-five percent of the Blue Cross-Blue Shield did not go up at all. What percent is the option, 25 percent, or what?

Mr. RUDDOCK. Eighty-six percent of all employees are in a high option.

Mr. THOMAS. That is a pretty steep jump; is it not?

Mr. MACY. No.

Mr. IRONS. The chairman is asking about the high option of the indemnity plan.

Mr. RUDDOCK. That is right.

Mr. IRONS. And this percentage increase of 10 percent just applies to the high option indemnity plan. What is the total high option indemnity plan of the total package?

DISTRIBUTION OF PARTICIPANTS

Mr. RUDDOCK. Twenty-five percent of all Federal employees are in the indemnity plan. About 75 percent of them are in family, and of those who are in family—86 percent or more are in high option.

NEGOTIATION OF INSURANCE CONTRACTS

Mr. EVINS. This is insurance by wholesale methods and the insurance companies do not have to have any expense. They get the business. Do you shop around with them every year at the end of the time as to whether or not you are going to convert to another insurance company?

Mr. MACY. It might be helpful to have Mr. Ruddock describe the negotiation process on the contract.

Mr. RUDDOCK. Actually, each contract is automatically renewable unless the carrier or the Commission gives advance notice of an intention to drop the contract. Along in the spring we ask each contractor whether they have any changes they want to make in their policy, and we suggest some changes from time to time where it appears that some need of Federal employees is not being met. We do not shop around for other carriers. Actually, that is pretty well fixed. All of these contracts are experience rated. This means that the premium is going to directly reflect the cost of the benefits, plus the cost of administration (which is kept at around 3½ percent by both Blue Cross-Blue Shield and by the insurance industry).

Mr. EVINS. What do you mean by "experience rated"? Do you mean fixed prices?

Mr. RUDDOCK. The premium is a product of the experience of the group that is in that particular plan. We do limit the risk charge,

which is the only potential profit item. In the service benefit plan which is Blue Cross-Blue Shield, the risk charge has been 1½ percent of premium. That is now reduced on a sliding scale. It would come out to about 1.2 or 1.3 from this point forward. With respect to the Aetna contract, for the first contract period the charge was 1$^{3}/_{10}$ percent of premium. In 1961, we reduced that to 1 percent of premium, so that 1 percent of premium, the risk charge, is divided between Aetna and over 200 insurance companies that are participating as reinsurers.

There is a very definite limit on the profit that is being taken out of it.

Mr. EVINS. They are very competitive as far as commercial insurance is concerned, advertising all these group health plans. They are advertising extensively trying to get the business. I thought there might be a little competition.

Mr. IRONS. There is.

Mr. EVINS. I wanted on the record to admonish our friends of the Civil Service Commission in dealing with the insurance companies to always sharpen their pencils.

Mr. THOMAS. That is good advice.

Mr. MACY. We will do that.

PAYMENT TO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Annuities	1,067,652	1,226,000	1,381,000
2. Refunds and death claims	120,761	125,000	125,000
Total program costs, funded—obligations	1,188,413	1,351,000	1,506,000
Financing:			
Unobligated balance brought forward:			
Cash	13,980		20
U.S. securities (par)	12,080,760	13,153,263	14,184,243
Receipts:			
Deductions from employees' salaries	920,752	945,000	958,000
Payments from other funds: Employing agency contribution	920,853	945,000	958,000
Federal contribution	30,000	62,000	65,000
Voluntary contributions, donations, service credit payments, etc	13,191	13,000	13,000
Interest and profits on investments	362,259	417,000	462,000
Gain from premium or discount on investments	−119		
Unobligated balance carried forward:			
Cash		−20	−20
U.S. securities (par)	−13,153,263	−14,184,243	−15,134,243
Total financing	1,188,413	1,351,000	1,506,000

The status of the fund is as follows:

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
U.S. securities brought forward (par)	12,080,760	13,154,721	14,184,243
Cash (unexpended balance)	95,831	93,038	108,934
Balance of fund brought forward	12,176,591	13,247,759	14,293,177
Cash income during year	2,247,055	2,382,000	2,456,000
Pending legislation			−65,000
Cash outgo during year:			
Payment of claims	1,055,158	1,211,582	1,365,220
Refunds	120,610	125,000	125,000
Gain from premium or discount on investments	119		
Total annual outgo	1,175,887	1,336,582	1,490,220
U.S. securities carried forward (par)	13,154,721	14,184,243	15,069,243
Cash (unexpended balance)	93,038	108,934	124,714
Balance of fund carried forward	13,247,759	14,293,177	15,193,957

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
42	Insurance claims and indemnities	1,067,652	1,226,000	1,381,000
44	Refunds	120,761	125,000	125,000
	Total obligations	1,188,413	1,351,000	1,506,000

Mr. EVINS. We will now take up the retirement fund. We appropriated in 1963, $30 million, in 1964 we appropriated $62 million, and for the next year the Commission has requested an appropriation of $65 million, or an increase of $3 million.

This committee is familiar with this fund. We will just let you spell out the status of it for the record.

CONDITION OF FUND AND PROPOSAL FOR LONG-TERM FINANCING

Mr. MACY. I believe first a comment should be made with respect to the figures that you have just read. Those figures reflect the estimate necessary to maintain part 3 of Public Law 793, which increased the annuitant rates during the past year.

In 1963, the $30 million was to cover 6 months of the new rates; the 1964 figure was for a full year and the $65 million in 1965 is necessary to cover that rate for the full 1965 fiscal year. However, we may not need this appropriation in future years because there is pending a proposal for an improvement in the financing of the entire fund.

The proposal has been introduced in the House as H.R. 6366 and H.R. 6412. This is the administration's plan to increase over the next period of years the Government's contribution in order to reduce, or to improve the status of the fund and to avoid a situation where the fund would become virtually exhausted at an early date in the future.

That proposed legislation has been heard in the Senate and a report is about to be released by the subcommittee that heard the plan.

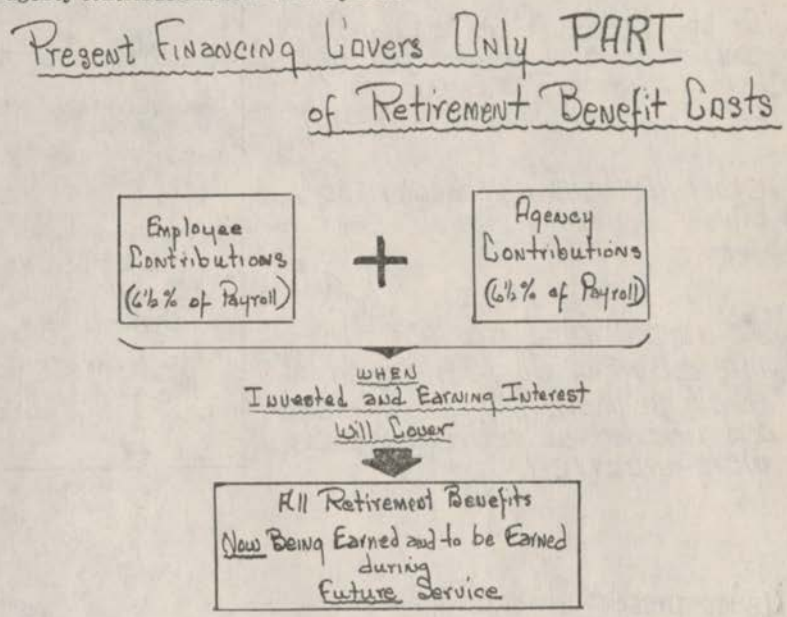
I would like to suggest, Mr. Evins, that perhaps it would be helpful to the committee if I submitted for the record a graphic presentation covering the condition of the fund and this proposal for the long-term financing.

Mr. EVINS. It may be included. I think it would be helpful, Mr. Chairman.

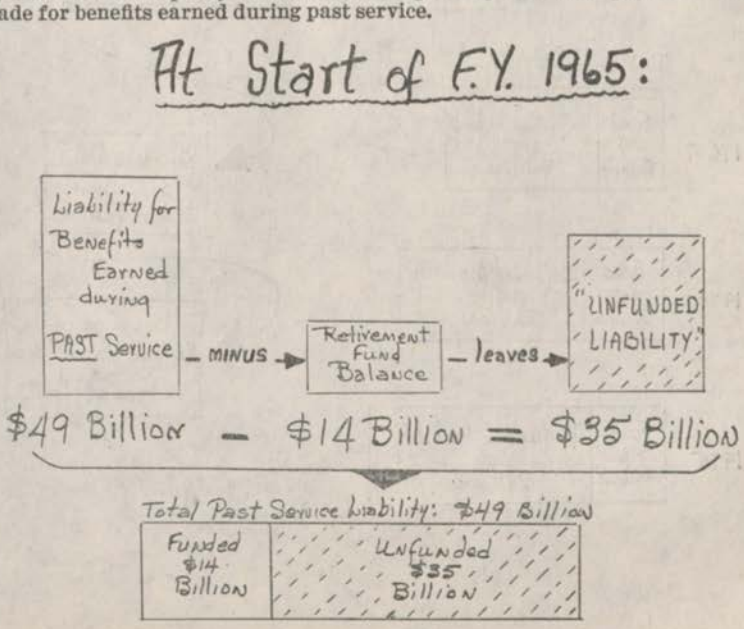
(The documents referred to follow:)

A PROPOSAL TO IMPROVE FINANCING OF THE CIVIL SERVICE RETIREMENT SYSTEM

The proposal: Permanent financing of retirement costs via a gradual increase in agency contributions scheduled by law.



Past financing—While producing income exceeding benefit payments made to date, has not built up any invested fund big enough to cover payments still to be made for benefits earned during past service.



WHY is there an Unfunded Past-Service Liability?

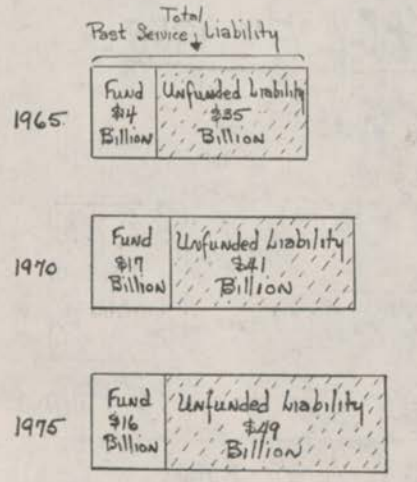
- In some years, Government did not pay its share of the cost of benefits earned in those years (though employees always paid their share)
- Liberalizations have been made without payment to cover past-service liability
- Retirement fund has lost the interest it would have earned if all payments had been made and invested as retirement costs were incurred

Such as—

- annuity increases
- pay increases
- liberalized benefit structure
- credit given to new groups for past service

Under present financing—

the UNFUNDED LIABILITY GROWS

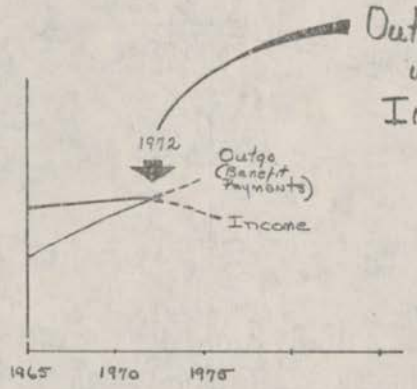


by more than $1 Billion each year

because of failure to replace the interest lost

What happens if present financing continues unchanged?

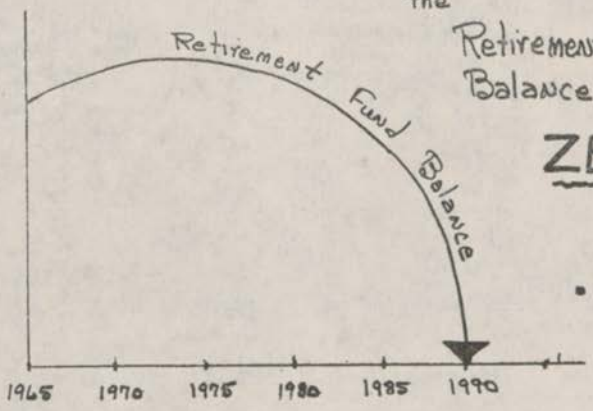
In 7 Years...



Outgo will exceed Income...

...and Start Eating Into Fund Balance

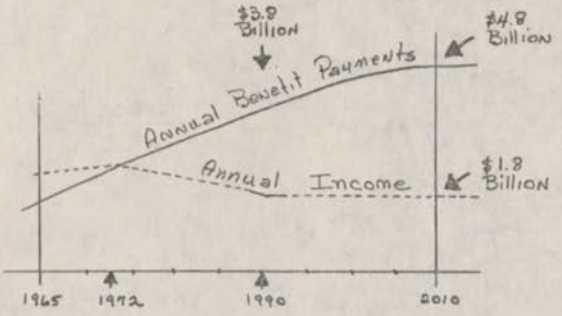
In 25 Years...



the Retirement Fund Balance will be ZERO

...but →

Benefit Payments will be HIGH,

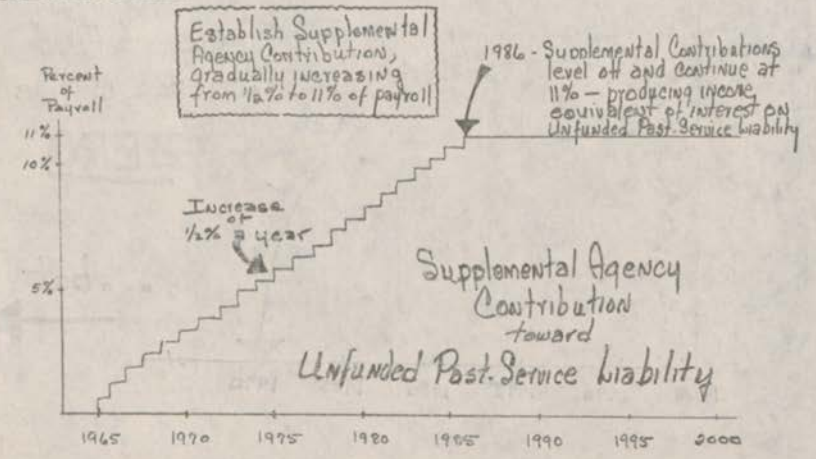


...and Will Exceed Income by $2 to $3 Billion each year

Problem: How to produce the additional income required to meet benefit payments?

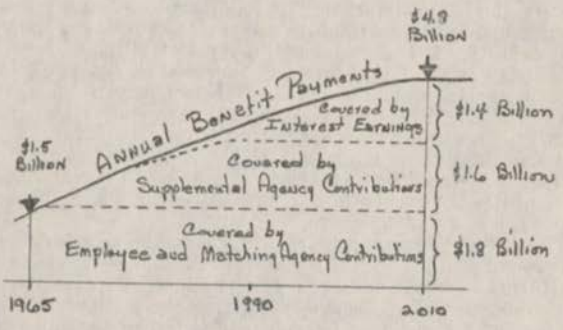
Appropriate $35 billion to fund now and wipe out the unfunded liability	No
Appropriate $2 to $3 billion more to fund each year after 1990?	No
Jump immediately to level annual appropriation of $1.1 billion (equivalent of lost interest) to fund?	No
Increase employee contributions?	No
Establish a gradually increasing supplemental agency contribution, growing from one-half of 1 perecnt of payroll in 1965 to 11 percent by 1986?	Yes

Here's How:



Result:

Benefit Payments Fully Covered



This proposal will—

Make operative the normal-cost-plus-interest financing principle OK'd by Congress in 1956.

Slow, then stop, growth of unfunded liability.

Keep retirement fund solvent.

Achieve goal without sharp increase in appropriations, either now or later.

Assure availability of sufficient funds to pay benefits promised to and earned by employees.

For technical details, see—

Letters of transmittal to the Speaker of the House and the President of the Senate (May 1963).

Draft bill to improve the financing of the civil service retirement system.

Table 1: Civil service retirement system—Estimated progress of the fund, assuming agency contributions matching employee deductions at 6½ percent, plus direct appropriations when needed to meet benefit payments.

Table 2: Civil service retirement system—Estimated progress of the fund, assuming agency contributions increasing by ½ of 1 percent each year from 1965 through 1986 and remaining level at 17½ percent thereafter, which then equals Government's normal cost plus interest on deficiency.

"Normal cost" means—

That level percentage of salaries which, if paid into an invested fund each year employees are in service, will, together with interest earnings, cover fully all retirement benefits due them and all their survivors.

"Plus interest" means—

Interest on the unfunded liability, needed as annual income to the fund to replace interest lost because growth of the fund has not kept pace with accumulating obligations.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., May 9, 1963.

Hon. JOHN W. MCCORMACK,
Speaker of the House of Representatives.

DEAR MR. SPEAKER: I submit for consideration of the Congress a proposal for improving the financing of the civil service retirement system, and strongly recommend its adoption. As a result of failure to contribute adequate sums in the past, the unfunded liability of the system has grown to an estimated $34 billion as of June 30, 1963. Unless steps are taken to increase the present level of contributions, the unfunded liability will continue to grow and as benefit disbursements increase the civil service retirement and disability fund will vanish by the year 1990.

This unsound financial condition arises because contributions to the system have not been adequate in past years and no significant provision is now being made to overcome these past deficits. At the present time employees contribute 6½ percent of their basic pay and the employing agencies are required to match these contributions from their appropriations. But the combined contributions cover only a little more than the currently accruing or normal cost of benefits under the system. They are not sufficient to make any significant contribution even toward the interest accruing on the unfunded liability, with the consequence that the accrued unfunded liability accrued with respect to past service continues to mount rapidly. It is now increasing at $1.1 billion a year and under present financing this rate will progressively increase in future years.

The Civil Service Commision therefore urgently recommends action to place the finances of the civil service retirement system on a sound long-range basis. In brief, the plan contains three elements:

1. The present contributions of 6½ percent of pay by employees and the matching contributions by the agencies would be continued. These regular contributions together approximately cover currently accruing or normal cost of the system.

2. Each agency would be required to make supplemental contributions to help arrest the growth of the unfunded past service liability of the system and to preserve the integrity of the fund. To ease the budgetary impact, this would be accomplished by starting these supplemental contributions at one-half of 1 percent of payroll in fiscal year 1965 and increasing them by one-half of 1 percent annually for 21 years so that by fiscal year 1986 they would reach 11 percent of payroll and remain at that level thereafter. Based on our present estimates, this supplementary contribution schedule, together with the regular matching contributions, would stabilize the growth of the unfunded liability in 1986 and thereafter permanently finance the system on a normal cost-plus-interest basis.

3. Any new or increased benefits resulting from future changes in the Civil Service Retirement Act would not become effective and no benefits would accrue until the full estimated increase in unfunded liability for past service which would otherwise result from such change in the act had been appropriated to the fund. This would avoid the escalation of unfunded liabilities because of benefit or coverage liberalizations.

The enclosed draft bill would modify the Civil Service Retirement Act to implement these changes. The following paragraphs outline the basis for our recommendations in greater detail.

The normal contriubution rate is the estimated level percentage of the salaries of new employees that is required to be paid into the fund each year they will be in the service to pay fully for all benefits to them and to their survivors. The "interest" part of the "normal-cost-plus-interest basis" means interest on the unfunded liability, or deficiency, which represents the excess of benefit liabilities over the present fund and future contributions at the normal rate. If the deficiency is not being amortized, payment of interest is necessary to prevent its increase.

The normal cost-plus interest basis is the actuarially accepted method of estimating retirement costs as a level percentage of payroll. It thus reveals long-term cost implications, as contrasted to projections over the immediate future, which ordinarily give little clue to total costs. A normal cost concept has been used consistently since the Retirement Act became effective in 1920, to appraise the costs of the system and the actuarial condition of the fund. It has also been generally used to estimate the effect of proposed amendments to the Retirement Act, as being the most meaningful measure of their impact.

The Board of Actuaries of the civil service retirement system has long recommended the normal-cost-plus-interest basis as an appropriate method of financing. The Committee on Retirement Policy for Federal Personnel, created by Congress in 1952 to study all Federal retirement systems, made a similar recommendation, tempered by the recognition that the fiscal situation of the Government might make necessary a gradual rather than immediate approach to this goal. The Comptroller General in his report of October 27, 1959, to the Senate Appropriations Committee also endorsed the normal-cost-plus-interest approach.

However, as will be shown later in this letter, there has been no consistent observance of the normal-cost-plus-interest method of financing. The Commission has now concluded that attainment of this objective requires a schedule of

Government contributions fixed by law. An immediate shift would require additional Government payments of about $1.1 billion annually. Because of the sharp budgetary and fiscal impact of such a sudden increase, we recommend a gradual approach, with a schedule of increased agency conributions which is regular and definite and which is calculated to attain the goal of normal cost plus interest within a period of 22 years.

The Commission considers that one of its gravest responsibilities is the administration of the civil service retirement system. It is a powerful tool in our personnel program, serving to attract and retain employees of the caliber required to conduct the complex business of government. It contributes toward financial security for millions of past, present, and future Government employees and their dependents. There should never exist the slightest doubt of the system's ability to meet these promises. That doubt now exists.

The Government's financial obligation is clear. Legislative enactments have established a program of benefits, liberalized many times since the system was initiated in 1920. Employees have contributed at the rates required by law, ranging from an initial rate of 2½ percent of salary to the present rate of 6½ percent. The balance of the cost of the program must be borne by the Government.

A brief review of past policies on financing may be helpful in appraising this problem. Employees have contributed to the system since it started operation in 1920. During this period of over 40 years a number of methods for determining appropriations to meet the Government's share of costs have been used and the attitude of the Congress and its committees toward these approaches has changed from time to time. In the first 8 years of the system's existence no appropriations were recommended by the President, and none were enacted by the Congress. From 1929 to the World War II period, appropriations were generally recommended by the President on a basis to cover normal cost and to amortize the unfunded liability by the end of this century. From 1929 through 1949, the appropriations enacted by the Congress were those recommended by the President.

In the 8-year period 1950–57, appropriations based on several different methods were recommended by the President. The Congress enacted lower appropriations on five occasions, higher amounts twice, and on one occasion approved the amount proposed. The budget recommendation for the fiscal year 1953 was based on normal cost plus amortization over a 30-year period and was reduced somewhat by the Congress. Recommendations for appropriations to cover normal cost plus interest for each of the years 1950, 1951, 1952, and 1954 were reduced by the Congress. A recommendation for 1955 to cover only the additional cost of annuities increased by a then-recent enactment was approved by the Congress. On the other hand, requested appropriations for 1956 and 1957, computed on the basis of the Government's share of costs for current disbursements less the interest on its equity in the fund, were increased.

The present method of financing was recommended by the Commission and enacted by the Congress in the Civil Service Retirement Act Amendments of 1956 (Public Law 84–854), effective with the beginning of fiscal year 1958. Under it, each employing agency contributes to the fund, from its appropriations for payment of salaries, amounts equal to deductions from the salaries of its covered employees at the rate of 6½ percent, or 7½ percent for Members of Congress. Adoption of the agency contribution provision achieved the desirable objective of assuring annual income approximating normal cost.

However, agency matching contributions are not sufficient to meet fully the Government portion of retirement cost, because no significant provision is now being made toward the unfunded liability or even toward the interest on it. In recognition of this fact, Congress provided in section 17(e) of the 1956 amendments that "The Commission shall submit estimates of the appropriations necessary to finance the fund on a normal-cost-plus-interest basis and to continue this act in full force and effect." With respect to this provision, the act, however, does not require automatic appropriation of amounts so estimated, just as the similar provision in force before the 1956 amendments did not so require. Instead it leaves final determination of amounts to be recommended for this purpose to the discretion of the President. Accordingly, the Commission's estimates have been forwarded to the Bureau of the Budget for consideration as part of the normal process of formulating the executive budget. The President's final determination has been made only after consideration of the financial status of the system, including its unfunded liability, in the light

of the general fiscal situation of the Government. This procedure is in keeping with the tradition of executive development of the budget.

The President did not request an appropriation to the retirement fund in his budget for the fiscal years 1959 or 1960 beyond the amounts to be appropriated to the various agencies. For fiscal year 1959, Congress included in H.R. 11574 an appropriation to the fund of $589 million more than the agencies' contributions included in the President's budget. This amount plus employee and agency contributions equaled full normal cost plus interest. The President vetoed this bill, and Congress accepted his view by enacting H.R. 13856, which omitted an additional appropriation for the fiscal year 1959.

In fiscal years 1961 and 1962, appropriations were made to the fund for the specific purpose of continuing in effect certain benefits provided by Public Law 85–465. Otherwise, no Government payments in addition to agency contributions have been made.

The effect of a continuation of current policy is shown in table I attached. If present assumptions do not change, we estimate that the fund, now in excess of $12 billion, would continue to increase until early in the next decade, but thereafter decline at an accelerated rate as benefit payments maintain their inevitable climb. The fund would be exhausted by 1990, and continuation of payment of benefits at promised levels would require direct appropriations exceeding $2.5 billion annually by the end of the century, and ultimately approximately $3 billion. The deductions of then-active employees, which the system promises to return as a minimum under all circumstances and thus are in effect a deposit liability of the fund, would amount to nearly $13 billion. However, these deductions would have been expended in benefits to retired employees, leaving nothing in the fund to assure their later repayment.

The Commission urgently recommends that such a situation not be allowed to develop. We propose in the attached draft bill that a supplemental agency contribution be established starting in fiscal year 1965 at the rate of one-half of 1 percent of basic salary and with the rate increased by one-half of 1 percent each fiscal year from 1966 through 1986, reaching 11 percent in that year and continuing at that level thereafter. Based on our present estimates, this schedule of contributions would permanently finance the system under accepted actuarial principles on the normal cost-plus-interest basis, a standard already approved by the Congress in section 17(e) of the Retirement Act. Table II attached shows the estimated effect of this proposal.

Section 2 of the draft bill would make the proposed agency contribution rates applicable to certain Government corporations, whose organic acts now provide a different basis for determining the amounts of employer contributions to the fund. Section 3(a) would repeal the provision contained in the Independent Offices Appropriation Act of 1959 which places certain restrictions on the use of the fund toward the payment of authorized benefits. Section 3(b) would repeal the requirement that there be submitted annually to the Congress estimates of the appropriations necessary to reimburse the fund for the cost of benefits provided by Public Law 85–465. Public Law 87–114 removed the requirement that appropriations be made to continue these benefits in effect, and the financing proposed in the draft bill would cover the estimated cost of Public Law 85–465 benefits together with all others now provided under the retirement system.

Section 4 of the draft bill would prevent an increase in the deficiency because of any future liberalization of the Retirement Act. Before any new or increased benefits hereafter enacted could become effective, an appropriation to the fund would be required in an amount equal to the excess of the total present value of such benefits over the present value of their normal cost. In nontechnical terms, section 4 would permit liberalized benefits to become effective only after funds have been appropriated in an amount equal to the estimated increase in past service liability accruing because of the new legislation.

The question may well be asked why the Commission recommends improved financing of the system solely through an increase in agency contributions. The fund has three sources of income: employee deductions, Government contributions, and interest earnings. Since the fund was established in 1920, its investments have been limited by law to obligations issued or guaranteed by the United States. We believe this policy is sound and should not be changed. The present formula for determining the interest rate on special issues to the fund was established in 1961 by Public Law 87–350, providing an equitable basis geared to the average market yield on Treasury securities. We believe this to be a proper approach and suggest no change.

Neither do we recommend an increase in the present deduction rates of 6½ percent for employees and 7½ percent for Members. Under the assumption of a long-term interest rate of 3½ percent used in our estimates, the normal cost of the benefits provided by the system is 12½ percent. This measures the average value of benefits to a new employee who contributes throughout his entire service. At the 6½ percent rate, he is paying 52 percent of the total cost of his benefits. Few retirement systems require as much; many are noncontributory. Moreover, the past history of the system shows that every increase in the employee deduction rate has been accompanied by benefit liberalizations costing more than the increased income so provided. The net result has been increased, rather than decreased Government cost.

We thus have no desirable alternative to an increase in Government contributions if the financing of the system is to be improved. This is as it should be. The Government has established a retirement plan for its empolyees under which they must contribute at specified rates; the Government as the employer is responsible for the balance of the cost, which exceeds the portion assessed to employees. But since the system began, employee payments have exceeded Government payments by more than $2 billion. This policy of deferment can have only one result—increased future requirements. Unless provision is made toward improving funding, the combined employee-Government contribution required will total about 34 percent of payroll after the turn of the century.

There then remains the question of whether increased Government payments should be made as agency contributions or as direct appropriations. In either case, the general fund of the Treasury—and ultimately, the American taxpayer—bears the cost. We favor the agency contribution approach because it provides an explicit schedule of definite contributions clearly designed to fully meet estimated benefit expenditures. The need for increased Government payments is due to the present deficiency, and about 85 percent of this deficiency is with respect to future benefits which will be payable to presently active employees.

In summary, the Commission is deeply concerned by the present lack of adequate and permanent provisions for financing the civil service retirement system. This concern is shared by Members of Congress and by employees, both active and retired. We believe that corrective action should be taken now, and recommend to the Congress the proposal set forth in this letter.

The Bureau of the Budget advises that there would be no objection to the presentation of this draft bill from the standpoint of the administration's program.

By direction of the Commission:

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

A BILL To improve the financing of the Civil Service Retirement System

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 4(a) of the Civil Service Retirement Act, as amended, is amended by inserting after the second sentence the following:

"A supplemental payment toward past service liability shall also be contributed from such appropriation or fund, in an amount equal to one-half of 1 per centum of the basic salary of each employee or Member from and after the first day of the first pay period which begins after June 30, 1964, with the rate of supplemental contribution increased by one-half of 1 per centum of basic salary on the first day of the first pay period which begins after June 30 of each succeeding year until the continuing supplemental contribution rate is equal to 11 per centum of the basic salary of each employee or Member."

SEC. 2. Section 4(a) of the Civil Service Retirement Act, as amended by section 1 of this Act, supersedes any provision of law inconsistent therewith for purposes of determining the amounts of employer contributions to the civil service retirement and disability fund.

SEC. 3. (a) The provisions of section 101, title I of the Act of August 28, 1958 (Public Law 85–844; 72 Stat. 1064), restricting the use of the civil service retirement and disability fund toward the payment of annuity benefits under the Civil Service Retirement Act and amendments thereto are hereby repealed.

(b) The proviso under the heading "Payment to Civil Service Retirement and Disability Fund" in section 101, title I of the Act of August 17, 1961 (Public Law 87–141; 75 Stat. 345; 5 U.S.C. 2259, Note), is hereby repealed.

SEC. 4. Section 17 of the Civil Service Retirement Act, as amended, is amended by adding at the end thereof the following new subsection:

"(f) Any new benefits or any increase in benefits resulting from a change in the eligibility requirements, the method of computation of benefits, or the crediting of service not previously creditable, authorized by amendment to this Act after June 30, 1963, or by any other enactment after such date which authorizes such new or increased benefits, shall become effective only after an appropriation has been made to the fund in an amount, as estimated by the Commission, equal to the excess of the total present value of such benefits over the present value of their normal cost. No benefits shall accrue and no payment shall be made with respect to such new or increased benefits for any period prior to the date of enactment of the required appropriation."

CIVIL SERVICE RETIREMENT SYSTEM

TABLE I.—*Estimated progress of the fund, assuming agency contributions matching employee deductions at 6½ percent, plus direct appropriations when needed to meet benefit payments*

[In millions]

Fiscal year	Employee deductions and deposits	Government payments		Interest at 3½ percent from 1968	Total receipts	Benefit payments	Balance in fund at end of year
		Agency contributions	Direct appropriations				
1962							$12,166
1963	$908	$896	$30	$374	$2,208	$1,219	13,155
1964	932	920	62	418	2,332	1,345	14,142
1965	944	932	(1)	458	2,334	1,518	14,958
1966	944	932		496	2,372	1,708	15,622
1967	944	932		530	2,406	1,915	16,113
1968	944	932		560	2,436	2,105	16,444
1969	944	932		569	2,445	2,232	16,657
1970	944	932		576	2,452	2,304	16,805
1971	944	932		579	2,455	2,395	16,865
1972	944	932		579	2,455	2,492	16,828
1973	944	932		577	2,453	2,587	16,694
1974	944	932		570	2,446	2,681	16,459
1975	944	932		560	2,436	2,768	16,127
1976	944	932		547	2,423	2,853	15,697
1977	944	932		531	2,407	2,935	15,169
1978	944	932		511	2,387	3,016	14,540
1979	944	932		488	2,364	3,091	13,813
1980	944	932		461	2,337	3,166	12,984
1981	944	932		431	2,307	3,236	12,055
1982	944	932		397	2,273	3,305	11,023
1983	944	932		360	2,236	3,370	9,889
1984	944	932		319	2,195	3,435	8,649
1985	944	932		274	2,150	3,501	7,298
1986	944	932		226	2,102	3,564	5,836
1987	944	932		174	2,050	3,628	4,258
1988	944	932		117	1,993	3,691	2,560
1989	944	932		57	1,933	3,752	741
1990	944	932	1,195		3,071	3,812	
1991	944	932	1,996		3,872	3,872	
1992	944	932	2,056		3,932	3,932	
1993	944	932	2,116		3,992	3,992	
1994	944	932	2,176		4,052	4,052	
1995	944	932	2,236		4,112	4,112	
1996	944	932	2,296		4,172	4,172	
1997	944	932	2,356		4,232	4,232	
1998	944	932	2,416		4,292	4,292	
1999	944	932	2,476		4,352	4,352	
2000	944	932	2,536		4,412	4,412	
2001	944	932	2,595		4,471	4,471	
2002	944	932	2,653		4,529	4,529	
2003	944	932	2,710		4,586	4,586	
2004	944	932	2,766		4,642	4,642	
2005	944	932	2,820		4,696	4,696	
2006	944	932	2,871		4,747	4,747	
2007	944	932	2,918		4,794	4,794	
2008	944	932	2,934		4,810	4,810	
2009 and after	944	932	2,934		4,810	4,810	

[1] Presumes legislative action removing the requirement for appropriations to continue benefits provided by Public Law 87-793, effective from and after fiscal year 1965.

Source: U.S. Civil Service Commission, Mar. 21, 1963.

TABLE II.—*Estimated progress of the fund, assuming agency contributions increasing by ½ of 1 percent each year from 1965 through 1986 and remaining level at 17½ percent thereafter, which then equals Government's normal cost plus interest on deficiency.*

[In millions]

Fiscal year	Employee deductions and deposits	Government payments			Interest at 3½ percent from 1968	Total receipts	Benefit payments	Balance in fund at end of year
		Agency contributions		Direct appropriations				
		Amount	As percent of payroll					
1962								$12,166
1963	$908	$896	6½	$30	$374	$2,208	$1,219	13,155
1964	932	920	6½		416	2,268	1,345	14,078
1965	944	1,004	7		457	2,405	1,518	14,965
1966	944	1,076	7½		499	2,519	1,708	15,776
1967	944	1,147	8		539	2,630	1,915	16,491
1968	944	1,219	8½		578	2,741	2,105	17,127
1969	944	1,291	9		599	2,834	2,232	17,729
1970	944	1,363	9½		621	2,928	2,304	18,353
1971	944	1,434	10		642	3,020	2,395	18,978
1972	944	1,506	10½		663	3,113	2,492	19,599
1973	944	1,578	11		685	3,207	2,587	20,219
1974	944	1,649	11½		706	3,299	2,681	20,837
1975	944	1,721	12		727	3,392	2,768	21,461
1976	944	1,793	12½		749	3,486	2,853	22,094
1977	944	1,865	13		771	3,580	2,935	22,739
1978	944	1,936	13½		793	3,673	3,016	23,396
1979	944	2,008	14		816	3,768	3,091	24,073
1980	944	2,080	14½		840	3,864	3,166	24,771
1981	944	2,151	15		865	3,960	3,236	25,495
1982	944	2,223	15½		890	4,057	3,305	26,247
1983	944	2,295	16		916	4,155	3,370	27,032
1984	944	2,367	16½		944	4,255	3,435	27,852
1985	944	2,438	17		973	4,355	3,501	28,706
1986	944	2,510	17½		1,003	4,457	3,564	29,599
1987	944	2,510	17½		1,033	4,487	3,628	30,458
1988	944	2,510	17½		1,062	4,516	3,691	31,283
1989	944	2,510	17½		1,090	4,544	3,752	32,075
1990	944	2,510	17½		1,116	4,570	3,812	32,833
1991	944	2,510	17½		1,142	4,596	3,872	33,557
1992	944	2,510	17½		1,166	4,620	3,932	34,245
1993	944	2,510	17½		1,189	4,643	3,992	34,896
1994	944	2,510	17½		1,211	4,665	4,052	35,509
1995	944	2,510	17½		1,231	4,685	4,112	36,082
1996	944	2,510	17½		1,250	4,704	4,172	36,614
1997	944	2,510	17½		1,268	4,722	4,232	37,104
1998	944	2,510	17½		1,284	4,738	4,292	37,550
1999	944	2,510	17½		1,299	4,753	4,352	37,951
2000	944	2,510	17½		1,312	4,766	4,412	38,305
2001	944	2,510	17½		1,323	4,777	4,471	38,611
2002	944	2,510	17½		1,333	4,787	4,529	38,869
2003	944	2,510	17½		1,341	4,795	4,586	39,078
2004	944	2,510	17½		1,347	4,801	4,642	39,237
2005	944	2,510	17½		1,352	4,806	4,696	39,347
2006	944	2,510	17½		1,355	4,809	4,747	39,409
2007	944	2,510	17½		1,356	4,810	4,794	39,425
2008	944	2,510	17½		1,356	4,810	4,810	39,425
2009 and after	944	2,510	17½		1,356	4,810	4,810	39,425

Source: U.S. Civil Service Commission, Mar. 21, 1963.

Mr. OSTERTAG. Will the chairman yield?

Mr. EVINS. Yes.

Mr. OSTERTAG. Am I correct when I say that your estimated budget appropriation of $65 million for fiscal year 1965 is the estimated amount that you will require as your obligation during that year? In other words, there is nothing more into the fund. It is just going to meet your retirement pay?

Mr. MACY. No. It is just to cover the increase in annuities authorized in Public Law 793 in 1962. This is a funding of that particular increase. This will not change the status of the fund.

DEFICIENCY IN RETIREMENT FUND

The status of the fund is described in the table on page 152. You will see there that the deficiency in the fund is computed to be roughly $32,600 million as of June 30, 1963.

Mr. OSTERTAG. What will it be at June 30, 1964?

Mr. MACY. You will see down in the lower right-hand corner of the table on page 152 that the deficiency will increase by $1,141 million during that fiscal year. This is due to the various conditions that are described in the left-hand column. You will see that the normal cost to the Government, in order to finance the retirement system, is 5.78 percent. That covers the Government's share up to normal costs. The employee's contribution is 6½ percent of payroll, so you see that there is some excess over the Government's share.

Mr. JONAS. Will you permit me to interrupt? I thought you told me this morning it would go up to $37 billion if this legislation is not enacted.

Mr. MACY. The figure here shows $32.6 billion plus $1.1 billion.

The figure at the bottom of the page here is the level of the unfunded deficiency as of the end of 1964, so that would be $32.6 billion plus $1.1 or $33.7 billion. There would be approximately the same increase in the deficiency, assuming no liberalization, no pay increase during that year, of roughly another $1.1 billion, so the figure I gave earlier was in excess. It is more nearly $34.5 billion.

Mr. THOMAS. Gentlemen, for the record, Mr. Chairman, is this $34 billion considered a part of the national debt?

Mr. EVINS. Do you want this off the record?

Mr. THOMAS. No. Leave this on the record. Is it part of the national debt?

Mr. MACY. No.

Mr. THOMAS. It has been swept under the rug. It is not part of the national debt even though it is part of the national debt just as much as that which is added up and computed.

Mr. MACY. It is an obligation against the Federal Government.

Mr. OSTERTAG. It is an obligation. An obligation is a debt but it is outside of the purview of the regular national debt limitation; is that right?

Mr. MACY. That is right. This is an acturial computation that is arrived at by assuming that everybody covered by the system at this particular point in time were to take all of their——

Mr. THOMAS. We understand that. What is the cash value of the fund as of, say, December 31?

STATUS OF THE RETIREMENT FUND

Mr. MACY. The balance in the fund at the close of fiscal year 1964 is estimated to be $14 billion.

Mr. THOMAS. No.

Mr. OSTERTAG. You mean on hand?

Mr. THOMAS. What was the last year? It was only $10 or $10½ billion; was it not?

Mr. MACY. No; it was 13.

Mr. THOMAS. Where do you get that figure? That cannot be right. Last year at this time it was either 10 or 10½; was it not?

Mr. MACY. It was 13 as of 1963, and about 14 as of 1964.

Mr. THOMAS. I hope I am wrong.

Mr. MACY. That was the figure I was using.

Mr. THOMAS. What is it now? Repeat that again, $13,500 million?

Mr. MACY. $13,300 million.

Mr. THOMAS. When did we use that figure, 10 or 10½?

Mr. MACY. That was a couple of years ago.

Mr. IRONS. 1960.

Mr. THOMAS. About how much higher will the fund rise before it starts going down again and when will it deplete itself? What makes the fund go up now?

Mr. MACY. The income to the fund from Government payments and employee payments is still in excess of the benefit payments. It will continue to rise until about 1973.

Mr. THOMAS. The answer is for the last 3 or 4 years you have been paying in the Government's 6½ percent on time and for years and years behind that we would pay up 1 year and the next year we would pay nothing. Another thing, you have your increase in interest rates.

Mr. MACY. That is right. The interest rate has gone from less than 3 percent to three and a half.

Mr. THOMAS. Over the next 5 or 10 years how high do you think the fund will rise?

Mr. MACY. To about $16.6 billion by 1973.

Mr. THOMAS. $16.6 billion by 1973. What will happen after 1973?

Mr. MACY. Fall to nothing by 1989.

Mr. OSTERTAG. It is difficult to project this in view of salary changes, inflation, and everything else.

Mr. MACY. Indeed it is.

CONTRIBUTION TO THE RETIREMENT FUND BY THE GOVERNMENT

Mr. OSTERTAG. I want to get back to the $65 million we are appropriating. Do I understand that this is the Government's share on the salaries paid this year in retirement?

Mr. MACY. No. The $65 million listed here is just an estimate——

Mr. OSTERTAG. I understand.

Mr. MACY. This is exclusively for the purpose of financing the annuity increase, an incremental amount which was authorized by statute in 1962. The money that the Government contributes to the fund is 6½ percent of payroll in every appropriation.

As the chairman said we have had regular contributions now since 1956. Prior to that, some years there were contributions and other years not. Since 1956 there has been 6½ percent of total payroll paid to the fund by the agencies. That, along with the employee contribution, meets the current level of payments.

Mr. OSTERTAG. Or exceeds it.

Mr. MACY. It actually exceeds it. We are building up the fund.

Mr. OSTERTAG. In other words, the practice today is to put the Government's share in each year in addition to the funds that are paid in by the employee?

Mr. MACY. That is right.

Mr. OSTERTAG. And during the current period that exceeds the retirement cost? I am putting it simply.

Mr. MACY. Correct.

Mr. OSTERTAG. There have been times in the past where we appropriated or provided only what was necessary to meet the obligation during that year. Is that correct?

Mr. MACY. Yes. We have built up this unfunded liability largely because we failed to cover past service. On a current basis we are doing all right, but on past service, which has accumulated because of annuity increases and liberalizations and failures to appropriate, we are losing the interest which would come from a higher level in the fund. This increases the unfunded liability.

Mr. OSTERTAG. If every nickel was in the till that belongs there from the standpoint of contributions by employees, contributions by the Government, we would have in the neighborhood of $32 to $34 billion. Is that correct?

Mr. MACY. If we had done that from the very beginning in 1920, we would have that much more.

Mr. OSTERTAG. It is an obligation on the part of the Government because the money is not there. It has been expended by the National Government.

Mr. MACY. The $32 billion is a liability carried on the books. It has never been appropriated, but it constitutes a potential obligation.

Mr. OSTERTAG. Does the Government pay interest on that?

Mr. MACY. On the unfunded liability?

Mr. OSTERTAG. Yes.

Mr. MACY. No. The fund is getting interest on the balance in the fund. That is the source of interest income. It is invested in Treasury securities.

Mr. OSTERTAG. But the money that the Federal Government has borrowed from the fund is not subject to an interest payment to the fund?

Mr. IRONS. The unfunded liability is strictly an actuarial figure. There are no funds there at all.

Mr. OSTERTAG. I understand that.

Mr. MACY. You are talking about the money in the fund at the present time?

Mr. OSTERTAG. No. I refer to the money not there.

Mr. IRONS. That never was there, nor taken out of the fund. It just never was paid in.

Mr. JONAS. One reason the alleged deficit is going up is because it is not bearing interest. Is that right?

Mr. IRONS. Yes.

Mr. MACY. That produces part of the $1.1 billion increase each year. I have a diagram in this paper which I think explains what is involved. Here is the outgo line in benefits which is rising. We have a rapidly rising rate of retirement.

Here is the income line which is relatively flat. They cross at approximately 1972, and from then on there will be less income than

there will be outgo until by roughly 1990 there will be no balance in the fund at all. Our refinancing proposal is one which would avoid this by keeping the annual benefit payments offset by an increase in the income.

ANNUAL APPROPRIATION AFTER FUND IS EXHAUSTED

Mr. JONAS. By 1990 when those lines cross and you have no more money and it will go on an annual appropriation basis, what is your best estimate on the annual appropriation?

Mr. MACY. When the fund is exhausted, if there were no change, it would require an annual appropriation, starting in 1990, of approximately $1.1 billion a year. This would go up to $2 billion by 1992 to $2½ billion by the year 2000 as annual appropriations in order to meet the obligation.

Mr. JONAS. There have been people who have argued that would be a better way to do it than this.

Mr. MACY. There are those who say wait and meet it out of current appropriations when the time comes. Our view is that this is a mistake, that we ought to be building up.

Mr. EVINS. This committee for several years has been providing appropriations to put the fund in better condition. This committee has kept a bad situation from getting worse. You need to address your remarks to the legislative committee, Mr. Chairman.

Mr. MACY. This committee has been largely instrumental in reminding us of our obligation to see to it that this fund is placed in a better condition.

JUSTIFICATION OF THE ESTIMATE

Mr. EVINS. We shall place in the record the chart on page 152 which gives the full picture on the deficiency, plus 153 regarding the interest situation which we just discussed, and the language. Put pages 145 through 153 in the record.

(The pages follow:)

Payment to civil service retirement and disability fund

	Appropriated, 1963	Authorized, 1964	Estimate, 1965	Changes, 1965 compared with 1964
Payment to civil service retirement and disability fund	$30,000,000	$62,000,000	$65 000,000	+$3,000,000

GENERAL STATEMENT

The civil service retirement and disability fund was established in 1920 to furnish retirement benefits to officers and employees of the U.S. Government who become superannuated in governmental service, or incapacitated before attaining old age. The Civil Service Retirement Act directs that the Commission shall be the administering agency and that "Except as otherwise specifically provided herein, the Commission is hereby authorized and directed to perform, or cause to be performed, any and all acts and to make such rules and regulations as may be necessary and proper for the purpose of carrying the provisions of this act into full force and effect."

Since passage of the Retirement Act, a number of amendments have served to revise benefits and financing procedures. The more recent amendments are discussed in this submission. During the 88th Congress, 1st session, legislation was proposed which would provide for permanent financing of the retirement system.

The amount requested for fiscal year 1965 is needed to pay for increased benefits provided in part III of Public Law 87–793, approved October 11, 1962, as explained below.

Effect of Public Law 85–465

Public Law 85–465, effective August 1, 1958, increased annuities of retired employees and survivors whose benefits were based on service terminated before October 1, 1956; and provided annuities to certain widows and widowers whose spouses had died, either in service or after retirement, prior to February 29, 1948. This act originally required the termination of annuities and increases in annuities provided therein for each fiscal year beginning on or after July 1, 1960, for which an appropriation shall not have been made to cover the cost of such benefits in that fiscal year. Such appropriations were made for fiscal years 1961 and 1962.

Public Law 87–114, approved July 31, 1961, amended Public Law 85–465 by removing this appropriation requirement. However, the Independent Offices Appropriation Act for 1962 provided $44,637,000 for Public Law 85–465 benefits in that year, and also states that "the Civil Service Commission shall include annually, in its estimates to the Bureau of the Budget, estimates of the appropriations necessary to reimburse the civil service retirement and disability fund for the amounts paid out of the fund by reason of the enactment of Public Law 85–465 and the Bureau of the Budget shall submit such estimates annually to the Congress."

In accordance with the directive in the 1962 appropriation act, the Commission estimates that the cost of benefits provided by Public Law 85–465, to be paid out of the fund in fiscal year 1965, will be $38 million. However, in view of Public Law 87–114, an appropriation of this amount is not being requested.

Effect of Public Law 87–793

Public Law 87–793, approved October 11, 1962, has significant effect on retirement costs. The higher salaries provided in part II, effective in October 1962 and January 1964, will increase prospective retirement benefits based in part on prior service, and hence the deficiency increases as explained later in this submission.

Part III of Public Law 87–793 provides for adjustment of annuities, including those already in payment as well as the majority to be awarded in the future. An appropriation of $30 million was made to cover these increased benefit payments in fiscal year 1963. The 1964 appropriation of $62 million is for the same purpose. The amount of $65 million included in this request is the estimated amount of such payments in fiscal year 1965. On the assumption that payment in subsequent years of benefits provided by part III of Public Law 87–793 will be contingent on annual appropriations, no increase in the normal cost and deficiency is reflected in the following estimates because of these benefit liberalizations.

Section 1102 of Public Law 87–793 provides a cost-of-living adjustment in retirement annuities, when the change in the price index shall have equaled a rise of 3 percent from 1962 or the year preceding the most recent cost-of-living adjustment. The law requires the Commission to make a determination as of January 1 of each year beginning in 1964, with increases in annuities when applicable, to be effective April 1 of the same year. There are no funds included in this appropriation request or in the salaries and expenses appropriation to cover requirements for a cost-of-living adjustment.

Estimates on a normal cost-plus-interest basis

Section 17(e) of Public Law 84–854, approved July 31, 1956, directs that "The Commission shall submit estimates of the appropriations necessary to finance the fund on a normal cost-plus-interest basis and to continue this Act in full force and effect." Employing agencies contribute, from their appropriations, amounts equal to the sums withheld from the salaries of their employees at the deducton rate of 6½ percent of basic salary. These agency contributions are less than the Government's total retirement cost on a normal cost-plus-interest basis. The difference is developed in this submission; however, an appropriation request for this purpose is not being made.

Periodic actuarial valuations are necessary for the determination of the normal cost and the unfunded liability, or deficiency. On June 15, 1959, the board of actuaries of the civil service retirement system submitted a special report summarizing the results of a valuation as of June 30, 1958. Copies of

this report were furnished the interested congressional committees and the Bureau of the Budget. The new valuation produced a minor increase in the estimated normal cost, and a significant increase in the estimated deficiency.

Public Law 87–350 (75 Stat. 770) approved on October 4, 1961, amends section 17(d) of the Civil Service Retirement Act with respect to interest earnings on special Treasury issues held by the fund. The Board's 1958 valuation was based on an interest rate of 3 percent. The effect of Public Law 87–350 will be an improvement of interest earnings estimated equivalent to a revision of the base upward to 3½ percent. Accordingly, the analysis herein reflects for the first time the revision of normal cost and deficiency estimates on the basis of 3½-percent interest earnings. Deviations in actual interest earnings from the 3½-percent rate are treated as adjustments of the deficiency.

Further possible revisions in the normal cost and deficiency estimates may be expected as a result of a new actuarial valuation of the system, currently in process. The valuation will be as of June 30, 1963, but results are not expected to be available until about the middle of calendar year 1964. This valuation also will be based on the assumption of 3½ percent interest earnings; other actuarial factors and rates will be revised to reflect more recent experience under the system.

Computation of normal cost

The Commission estimates that, on the basis of a 3½-percent valuation rate of interest, the normal cost of the benefit provisions as amended by Public Law 84–854 is 12.28 percent of the total salaries of employees covered by the Retirement Act. With employees paying 6½ percent, this leaves a Government normal cost of 5.78 percent. As previously explained, the normal cost does not reflect an increase because of the enactment of part III, Public Law 87–793.

It is estimated that the annual payroll of covered employees will total $14,734,100,000 after the second phase of salary increases provided by Public Law 87–793, effective January 1, 1964. Covered payroll in fiscal year 1965 is thus estimated at this amount.

The Government's normal cost in fiscal year 1965 is estimated as follows:

(1) Estimated total salaries of covered employees	$14,734,100,000
(2) Government normal cost percentage	5.78
(3) Government normal cost, fiscal year 1965: (1) × (2)	$851,631,000

Computation of interest on the deficiency

The Board of Actuaries estimates that the deficiency amounted to $27,451 million as of June 30, 1958. The Commission's budget estimates for fiscal years 1961 and 1962 show how this increased to the estimated amount of $31,142,649,000 at June 30, 1960, primarily because (1) no direct appropriations to the fund were made in fiscal years 1959 and 1960; and (2) Public Law 86–568 increased salaries (and hence prospective retirement benefits based in part on prior service), and also brought under the Retirement Act about 15,000 employees of agricultural stabilization and conservation county committees.

The Commission's budget submission for fiscal year 1963 shows a further increase in the deficiency to an estimated amount of $32,546,939,000 at June 30, 1961. No direct appropriations to the fund were made in fiscal years 1961 and 1962 to cover interest on the deficiency and the excess of the Government's normal cost over contributions by agencies. A further increase in the deficiency resulted from enactment of Public Law 87–114, making Public Law 85–465 benefits payable from the fund without reimbursement through annual appropriations. After allowing for the Public Law 85–465 appropriation in fiscal year 1962, the Commission estimated an increase of $330,363,000 in the deficiency because of this legislation. The Commission's budget submission for fiscal year 1964 shows an estimated deficiency of $33,660,020,000 at June 30, 1962.

Revision of the interest base to 3½ percent, as previously discussed, results in a revision of the estimated deficiency at June 30, 1962. The revised amount of $29,727,900,000 at June 30, 1962, has been used herein, together with normal cost computations and assumed interest earnings based on 3½ percent, from that point onward.

During fiscal year 1963, the deficiency increased by an estimated $2,926,091,000, to $32,653,991,000 at June 30, 1963. A considerable part of this increase ($1,871 million plus assumed interest thereon) was due to the higher salaries provided by part II of Public Law 87–793. As previously stated, no increase in the de-

ficiency is assumed because of the costs of benefits provided by part III of the same act, under the assumption of annual appropriations to cover such costs.

A second part ($72,017,000) of the increase for 1963 was due to lack of full interest earnings at 3½ percent. As previously stated, the estimates of the normal cost and the deficiency are predicated on the assumption that the fund will earn 3½ percent over the long-term future. Even though Public Law 87–350 changes to basis for future investment of the retirement fund, its effect during fiscal year 1963 resulted in average earnings of less than 3½ percent of the total fund. This is so because the bulk of the existing investments are still earning less than 3 percent. This deviation from the assumed rate of 3½ percent is treated as an increase in deficiency. As more of present investments are redeemed and reinvested, along with current receipts, any earnings in excess of an average of 3½ percent of the total fund would be treated as a decrease in the deficiency.

For fiscal year 1963, the only direct appropriation to the fund was $30 million to cover costs of benefits provided by part III of Public Law 87–793, an appropriation which has no effect on the deficiency computed without reference to such costs. Since there were no other direct appropriations, the deficiency increased during 1963 by interest at 3½ percent on the balance at the beginning of the year ($29,727,900,000), offset only to the extent ($102,002,000 plus assumed interest earnings thereon) by which agency contributions exceeded the Government's normal cost as computed on the new 3½-percent base. This third and last part of the deficiency increase for 1963, due to interest on the starting balance, offset as described, was $936,689,000.

During fiscal year 1964, the deficiency will again increase due to lack of full interest earnings at 3½ percent and because of interest on the starting balance, offset to the extent that agency contributions exceed the Government's normal cost.

The following table shows the factors used in estimating interest on the deficiency for fiscal years 1963 and 1964.

	Fiscal year 1963	Fiscal year 1964
1. Deficiency at—		
June 30, 1962	[1] $29, 727, 900, 000	
June 30, 1963		$32, 653, 991, 000
2. Government's normal cost, 5.78 percent of estimated annual payroll of—		
$14,166,970,000 in 1963	818, 851, 000	
$14,544,500,000 in 1964		840, 672, 000
3. Agency contributions, 6½ percent of estimated annual payroll of—		
$14,166,970,000 in 1963	920, 853, 000	
$14,544,500,000 in 1964		945, 392, 000
4. Excess of item 3 over item 2	102, 002, 000	104, 720, 000
5. Amount by which interest income falls short of income at assumed rate of 3½ percent (see detail on following page)	72, 017, 000	54, 532, 000
6. Increase in deficiency due to salary increases provided by Public Law 87–793	1, 871, 000, 000	
7. Deficiency at June 30, excluding interest items (1−4+5+6)	31, 568, 915, 000	32, 603, 803, 000
8. Interest at 3½ percent on deficiency (3½ percent of item 1)	1, 040, 476, 000	1, 142, 890, 000
9. Interest at 3½ percent (for ½ year) on excess of agency contributions over Government normal cost (1¾ percent of item 4)	1, 785, 000	1, 833, 000
10. Interest at 3½ percent (for 8½ months) on item 6	46, 385, 000	
11. Total interest (items 8−9+10)	1, 085, 076, 000	1, 141, 057, 000
12. Total deficiency at June 30, 1963 (items 7+11)	32, 653, 991, 000	

[1] The June 30, 1962, deficiency was given as $33,660,020,000 in the 1964 budget submission, computed under the assumption of 3 percent interest earnings. The figure of $29,727,900,000 reflects the revision to a 3½ percent valuation rate.

Summary of computation on a normal cost-plus-interest basis, fiscal year 1965

1. Government normal cost	$851,631,000
2. Interest on deficiency for 1964	1,141,057,000
3. Total required on normal cost-plus-interest basis (items 1 + 2)	1,992,688,000
4. Less contributions by agencies	957,716,000
5. Amount on normal cost-plus-interest basis not met by agency contributions (items 3 — 4)	1,034,972,000

Detail of item 5

	Fiscal year 1963 actual	Fiscal year 1964 estimate
1. Investments in fund at beginning of year	$12,070,638,000	$13,144,672,000
2. Direct appropriation to fund:		
Public Law 87-793 benefits in 1962	30,000,000	
Public Law 87-793 benefits in 1964		62,000,000
3. Receipts from employee deductions, voluntary contributions, service credit payments, and agency contributions	1,854,796,000	1,903,000,000
4. Benefit disbursements	1,188,500,000	1,351,000,000
5. Excess of item 3 over item 4	666,296,000	552,000,000
6. Computation of 3½-percent interest:		
(a) Item 1 for 12 months	422,472,000	460,064,000
(b) Item 2 for 2 months in 1963	175,000	
For 10 months in 1964		1,808,000
(c) Item 5 for 6 months	11,660,000	9,660,000
(d) Total interest at 3½ percent	434,307,000	471,532,000
7. Interest income	362,290,000	417,000,000
8. Excess of 3½ percent over interest income (item 6d-7)	72,017,000	54,532,000

Mr. EVINS. Any further questions on the retirement fund?
(No response.)

Employees Life Insurance Fund

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs, funded:			
Gross premium payments	153,009	153,740	155,960
Less: Return of premium	36,634	37,000	37,000
Net premium payments	116,375	116,740	118,960
Administration:			
(*a*) Basic program	119	128	140
(*b*) Beneficial association	141	140	137
Other expense	2		
Total operating costs, funded	116,637	117,008	119,237
Capital outlay:			
Purchase of equipment		2	
Total program costs, funded	116,637	117,010	119,237
Change in selected resources [1]	−7		
Total obligations	116,631	117,010	119,237
Financing:			
Revenues and other receipts:			
Employees' salary withholdings	99,836	100,500	102,000
Agency contributions	49,918	50,250	51,000
Beneficial association premium collections	3,356	3,000	2,800
Interest revenue	11,576	13,500	15,500
Other revenue	55	25	25
Total revenues and other receipts	164,741	167,275	171,325
Unobligated balance brought forward:			
Cash	21,921	14,195	14,866
U.S. securities (par)	247,570	303,406	353,000
Unobligated balance carried forward:			
Cash	−14,195	−14,866	−14,954
U.S. securities (par)	−303,406	−353,000	−405,000
Financing applied to program	116,631	117,010	119,237

Summary of sources and application of funds

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Obligations (from program and financing)	116,631	117,010	119,237
Increase (−) in gross unpaid obligations	−893		
Gross expenditures	115,738	117,010	119,237
Revenues and other receipts (from program and financing)	164,741	167,275	171,325
Increase (−) in accounts receivable, net	−16,764		
Applicable receipts	147,977	167,275	171,325
Trust expenditures	−32,239	−50,265	−52,088

[1] Balances of selected resources are identified in the statement of financial condition.

Revenue, expense, and retained earnings

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Revenue	164,741	167,275	171,325
Expense	116,640	117,011	119,240
Net income for year	48,101	50,264	52,085
Retained earnings, start of year	269,521	317,622	367,886
Retained earnings, end of year	317,622	367,886	419,971

Financial condition

[In thousands of dollars]

	1962 actual	1963 actual	1964 estimate	1965 estimate
Assets:				
Treasury balance	26,862	3,265	3,937	4,025
U.S. securities (par)	247,570	303,406	353,000	405,000
Accounts receivable, net	8,740	25,504	25,504	25,504
Selected assets: Supplies [1]	5	4	4	4
Fixed assets, net	13	10	9	6
Total assets	283,190	332,190	382,453	434,539
Liabilities: Current	13,669	14,568	14,568	14,568
Trust equity: Retained earnings	269,521	317,622	367,886	419,971

[1] The changes in these items are reflected on the program and financing schedule.

Analysis of trust equity

[In thousands of dollars]

	1962 actual	1963 actual	1964 estimate	1965 estimate
Unpaid undelivered orders [1]	12	6	6	6
Unobligated balance	269,491	317,601	367,866	419,954
Invested capital earnings	18	14	13	10
Total trust equity	269,521	317,622	367,886	419,971

[1] The changes in these items are reflected on the program and financing schedule.

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
12	Personnel benefits	116,375	116,740	118,960
25	Other services	262	268	277
31	Equipment		2	
	Total costs	116,637	117,010	119,237
	Change in selected resources	−7		
	Total obligations	116,631	117,010	119,237

Mr. EVINS. We will move on to the status of the employees' life insurance fund.

Mr. THOMAS. There should be a big fat profit there.

Mr. MACY. All that is involved here is a limitation on administrative expenditures out of the fund. We are proposing a limitation of $277,000.

STATUS OF THE LIFE INSURANCE FUND

Mr. THOMAS. Give us a little rundown on the fund. Two or three years ago everybody thought you would have a little extra money and the insurance would be increased 15 to 25 percent. What happened to that would-be profit?

Mr. RUDDOCK. There is no surplus in the life insurance fund. There is a provision in the Life Insurance Act that when an employee retires on immediate annuity, either for disability or after as much as 12 years service he continues his life insurance and continues to carry it after retirement.

It stays at the full amount until he is 65 and retired. Then it begins to decline until it goes down to 25 percent of the face value.

Because this insurance does carry into retirement we are going to need all of the money that has been coming into this program in premium to meet the obligations as they will arise in the future.

We have already reached a point where the number of people who die in a retired status under this act, exceeds the number of active employees who die, and this continues to grow a little each year. I think it is obvious we will need more money in the future. We are in the process of making a valuation of the condition of this life insurance fund; that is a valuation as of June 1963.

(Discussion held off the record.)

Mr. MACY. Table 159 shows the justification for that amount referred to, Mr. Ostertag.

Mr. OSTERTAG. We shall insert page 155 through page 161 in the record at this point.

(The pages follow:)

EMPLOYEES' LIFE INSURANCE FUND

GENERAL STATEMENT

The Federal Employees' Group Life Insurance Act, 5 U.S.C. 2091–2103, August 17, 1954, as amended, provides that the employees' life insurance fund is available for any expenses incurred by the Civil Service Commission in the administration of the act.

Regular program

There are approximately 2¼ million employee participants in this country and overseas. This is approximately 95 percent of the employees who are eligible. In addition, about 275,000 retired employees are insured. Estimated life insurance coverage for both groups is $16.6 billion.

From the start of the program through June 30, 1963, $700.3 million was withheld from the salaries of covered employees and $350.2 million was contributed by the Government. It is estimated that in fiscal year 1965, $102 million will be paid into the fund by employees, and $51 million by the Government. Employees in this group contribute 25 cents per $1,000 of insurance each biweekly pay period, and the Government contributes one-half that amount.

The amount of life insurance benefits paid under the policy to survivors of insured members and in dismemberment benefits to insured members since the start of the program was $666 million through June 30, 1963. It is estimated that about $135 million in life insurance and dismemberment benefits will be paid out in fiscal year 1965.

Most of the difference between receipts and benefit payments under the policy is placed in reserve for charges under the policy. On June 30, 1963, the end of the last completed policy year, there were total reserves of $399.8 million of

which $100 million was held as a contingency reserve by the insurer at interest, and $299.8 million was held by the fund with the Treasury of the United States. The contingency reserve held by the insurer is limited to a level of $100 million, and all amounts above this figure periodically are returned and deposited in the Treasury of the United States to be invested.

Beneficial association agreements

Through June 30, 1963, individuals whose beneficial life insurance agreements have been assumed by the fund paid $20 million into the fund. It is estimated that in fiscal year 1965 about $2.8 million will be paid into the fund by this group. Former members of beneficial associations continue to pay premiums according to the rate schedules in effect at the time their life insurance agreements were assumed by the fund, but the Government makes no current contributions to the fund for these individuals as it does for employees covered under the regular program.

A contingency reserve has been established and is held by the insurer at interest under the policy covering members of beneficial associations. This reserve, which was estimated to be $3.2 million on June 30, 1963, will accumulate interest consistent with that provided under the regular program. If the Commission determines that the contingency reserve under the beneficial association program has reached a level sufficient to meet adverse fluctuation in future charges, any amounts above this level will be returned to the fund.

Commission responsibilities

A number of functions are required by law to be carried out by the Commission in administering the Federal Employees' Group Life Insurance Act. Among the more important ones are—

1. The purchase of a group policy from a private insurance company to provide the benefits authorized, and the negotiation for amendments to the policy.
2. Determining or redetermining that the insurers and reinsurers meet the eligibility conditions and comply with contract provisions for carrying the policy under which Federal employees are insured.
3. Collecting premiums from members of beneficial associations whose life insurance agreements have been assumed.
4. Determining eligibility of employees retiring under the civil service retirement system and other Federal civilian retirement systems for continuance of their life insurance after retirement without cost to them.
5. Arranging for insured individuals to receive appropriate certificates, notices, and information concerning their rights, privileges, and benefits.
6. Auditing the mortality and other claim charges, and expenses incurred in the administration of the program by the insurance companies.
7. Prescribing the operating regulations, rules, procedures, and forms for the Commission, employing agencies, and individuals.
8. Developing and maintaining financial and statistical data for management use, and for annual reporting to the Congress.
9. Receiving and accounting for employee withholdings and agency contributions to the fund, and maintaining necessary control accounts and records.
10. Answering inquiries from individuals and agencies on insurance matters.

Under the program, all insurance payments to claimants are settled by an administrative office of each insurer upon receipt of certification of the insurance status of the person on whose account the claim is being made. In the case of an active employee, the certification is made by the last employing office, and it is unnecessary for the Commission to be involved in any recordkeeping for such individuals. For retired employees, and those individuals insured because of the assumption of life insurance agreements of beneficial associations, the Commission acts as the central agency for certification of insurance status when the insured person dies. Therefore, the Commission already has all necessary records, obtained from employing agencies at retirement, or at time of taking over the beneficial associations' life insurance agreements, and there is some individual recordkeeping in these cases.

Limitation on administrative expenses

Estimates for fiscal years 1964 and 1965 provide for increased costs in maintaining the regular insurance program because the number of insured annuitants is increasing, thereby increasing the number of eligibility determinations at retire-

ment, and certifications to be made at the time of death of these annuitants, and because of increased pay costs. The cost of servicing beneficial association members is expected to decrease in fiscal year 1965, except for the pay raise increment, because the number of members to be serviced is expected to decrease from 115,846 in 1964 to approximately 114,300 members in 1965. The declining membership is due to deaths and lapses.

The distribution of administrative expenses between the regular program and beneficial association work is shown below:

	1963 actual		1964 authorized		1965 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Regular program	15	$116,247 (121,000)	15	$128,000 (129,700)	17	$140,300
Beneficial association work	18	140,371 (146,100)	18	142,000 (143,800)	17	136,700
Total	33	255,618 (267,100)	33	270,000 (273,500)	34	277,000

The following table shows the distribution of average positions and costs by function for fiscal years 1963, 1964, and 1965.

	1963 actual		1964 authorized		1965 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Collecting, accounting and auditing	18	$109,786 (115,200)	17	$111,300 (113,200)	17	110,700
Determining and certifying insurance status	9	55,454 (58,100)	10	64,400 (65,400)	12	74,000
Answering insurance inquiries	6	33,097 (34,700)	6	33,400 (33,900)	5	32,900
Subtotal, personnel compensation	33	198,337 (208,000)	33	209,100 (212,500)	34	217,600
Other objects of expense	----------	58,281 (59,100)	----------	60,900 (61,000)	----------	59,400
Total program	33	256,618 (267,100)	33	270,000 (273,500)	34	277,000

NOTE.—Figures in parentheses above and in the following text are adjusted to reflect 1965 pay rates for comparability.

Collecting, accounting, and auditing

	1963	1964	1965
Average positions	18	17	17
Cost	($115,200)	($113,200)	$110,700

This is the entire accounting and fund control function. It includes (1) operating complete control accounts for the entire program; (2) receiving and depositing employee withholdings and agency contributions; (3) receiving, depositing, and accounting for individual premium payments on beneficial association agreements; (4) computing amounts of premiums due and authorizing payments to insurance carriers; (5) managing assets of beneficial associations; (6) preparing summary financial statements; (7) reviewing the effectiveness of the Government-wide accounting system for the program; (8) auditing individual claims and insurance companies' records to determine propriety of

claims and compliance with insurance contracts or agreements; (9) developing, compiling, and analyzing statistical data pertaining to the insurance program; and (10) analyzing and preparing reports on insurance legislation and policy proposals. The cost of administering this function is expected to be less in 1965 because the beneficial association membership will be smaller due to deaths and lapses.

Determining and certifying insurance status

	1963	1964	1965
Average positions	9	10	12
Cost	($58,100)	($65,400)	$74,000

This function consists of determining whether employees retiring under the several Federal civilian retirement systems are eligible for continuing coverage under the act. It includes: (1) Technical and clerical work involved in obtaining necessary data from agencies in retirement cases; (2) determining whether or not employees meet the requirement of the law for continuance of life insurance during retirement without cost to them, and notifying them of the determinations; and (3) certifying insurance status to the insurer at time of death of retired employees. The cost of this function is expected to be slightly higher in fiscal year 1965 because the number of insured annuitants in the regular program is increasing, thereby increasing the number of eligibility determinations at retirement, and certifications to be made at the time of death of these annuitants, and because of added pay costs.

Answering insurance inquiries

	1963	1964	1965
Average positions	6	6	5
Cost	($34,700)	($33,900)	$32,900

This function covers the work of replying to telephone, written and personal inquiries; designing necessary forms; and preparing and issuing external instructions and informational releases. The estimated cost for 1965 is below 1964 because of the declining beneficial association membership.

Other objects of expense

	1963	1964	1965
Cost	($59,100)	($61,000)	$59,400

This item provides for all expenses other than personnel compensation. Requirements for fiscal year 1965 are slightly less than in fiscal year 1964.

Mr. OSTERTAG. Any further questions on this?

(No response.)

Investigations Revolving Fund

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs, funded: Cost of services performed	14,861	14,312	14,570
Capital outlay: Purchase of equipment	179	134	177
Total program costs, funded	15,040	14,446	14,747
Change in selected resources [1]	−920	378	−300
Total obligations	14,120	14,824	14,447
Financing:			
Revenue and other receipts: Sales and services	15,015	14,480	14,740
Change in unfilled customers' orders	−932	373	−300
Unobligated balance brought forward	3,603	3,559	3,567
Capital transfers:			
Payment of earnings	−7	−18	
Repayment of capital investment		−3	
Unobligated balance carried forward	−3,559	−3,567	−3,560
Financing applied to program	14,120	14,824	14,447

[1] Balances of selected resources are identified on the statement of financial condition.

Summary of sources and application of funds

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Obligations (from program and financing)	14,120	14,824	14,447
Increase (−) or decrease in gross unpaid obligations	−242	288	−50
Gross expenditures	13,878	15,112	14,397
Revenues and other receipts (from program and financing)	15,015	14,480	14,740
Increase (−) in accounts receivable, net	−438		
Applicable receipts	14,577	14,480	14,740
Budget expenditures	−699	632	−343

Financial condition

[In thousands of dollars]

	1962 actual	1963 actual	1964 estimate	1965 estimate
Assets:				
Treasury balance	2,165	2,856	2,203	2,546
Accounts receivable, net	1,241	1,679	1,600	1,600
Selected assets: [1]				
Unfilled customers' orders	1,831	899	1,272	972
Advances	92	91	90	90
Equipment, net	282	327	293	300
Total assets	5,611	5,852	5,458	5,508
Liabilities: Current	1,604	1,831	1,458	1,508
Government equity:				
Non-interest-bearing capital:				
Start of year	4,026	4,000	4,003	4,000
Donated assets during the year		3		
Repayment of capital to Treasury	−26		−3	
End of year	4,000	4,003	4,000	4,000
Retained earnings	7	18		
Total Government equity	4,007	4,021	4,000	4,000

[1] The changes in these items are reflected on the program and financing schedule.

Analysis of Government equity

[In thousands of dollars]

	1962 actual	1963 actual	1964 estimate	1965 estimate
Unpaid undelivered orders [1]	30	44	50	50
Unobligated balance	3,603	3,559	3,567	3,560
Invested capital and earnings	374	418	383	390
Total Government equity	4,007	4,021	4,000	4,000

[1] The changes in these items are reflected on the program and financing schedule.

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	9,027	9,760	10,191
	Positions other than permanent	52	51	52
	Other personnel compensation	1,786	1,685	881
	Total personnel compensation	10,865	11,496	11,124
12	Personnel benefits	681	736	768
21	Travel and transportation of persons	1,683	1,640	1,580
22	Transportation of things	51	70	60
23	Rent, communications, and utilities	235	268	300
24	Printing and reproduction	63	75	65
25	Other services	64	75	65
	Reimbursable administrative costs	165	170	173
26	Supplies and materials	120	150	130
31	Equipment	179	134	177
42	Insurance claims and indemnities	2	5	5
	Total accrued expenditures	14,108	14,819	14,447
	Increase or decrease in travel advances and unpaid undelivered orders	12	5	
	Total obligations	14,120	14,824	14,447

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	1,500	1,475	1,475
Full-time equivalent of other positions	13	12	12
Average number of all employees	1,329	1,395	1,395
Employees in permanent positions, end of year	1,369	1,375	1,375
Employees in other positions, end of year	43	43	43
Average GS grade	7.3	7.3	7.3
Average GS salary	$6,985	$7,300	$7,373

Mr. OSTERTAG. The revolving fund is next. Mr. Chairman?

Mr. MACY. The revolving fund is the means whereby the Commission finances the service that it renders to other departments and agencies in the conduct of full field security investigations. The Commission performs this as a service and it bills the agencies on a per case basis.

You will note there in the table on page 162 that we are estimating the average cost per case for 1965 at $335. This is in contrast to an average cost per case in 1963 of $350.

Using 1965 pay scales it is a cost of $368. This means there actually has been a reduction of $33 per case. This is possible by improving our administration of this program, changing slightly the coverage of the investigations, and utilizing GSA automobiles for our investigators rather than permitting them to use their own automobiles.

You will note that on page 163 we have indicated that the savings that have been made in this program will save not the Commission but the agencies that use this service about $2 million a year.

Mr. THOMAS. This is not under salaries and expenses. You have about 1,500 employees there.

Mr. MACY. That is correct, approximately 1,500.

Mr. THOMAS. If we added that it would be——

Mr. MACY. This number of employees is included within the ceiling that the President has given to the Civil Service Commission. That is how we arrive at the overall ceiling of 4,079.

Mr. OSTERTAG. I think we should insert pages 162 and 163 in the record.

(The pages follow:)

REIMBURSABLE SECURITY INVESTIGATIONS PROGRAM

Pursuant to title 22 U.S.C. 1661, other laws, and Executive orders, the Civil Service Commission conducts full field security investigations for various agencies of the Government on a reimbursable basis.

Agency estimates of investigations to be requested in fiscal year 1964 and 1965 as compared to fiscal year 1963 experience are presented below. In addition, the table relates estimated workload receipts to estimates of production, manpower, and unit cost.

Caseload, average positions, and unit cost

	1963 actual	1964 authorized	1965 estimate
On hand beginning of year	15,303	10,483	8,483
Received	40,937	42,000	42,000
Total workload	56,240	52,483	50,483
Processed	45,757	44,000	44,000
On hand end of year	10,483	8,483	6,483
Average positions	1,329	1,395	1,395
Average cost per case	$350	$329	
	[1] ($368)	[1] ($335)	$335

[1] Adjusted to 1965 pay scale for comparability.

The procedures developed in executing the program appear to be effective and reports are generally furnished to the agencies within the time limits prescribed. The quality of the reports meets the standards and requirements of the agencies served.

The accomplishments in this program represent an outstanding response by the Commission to the President's desire for increased productivity, economy, and efficiency.

When Public Law 87–793 was approved, the agencies for which this service is performed were told that costs would approximate $375 per case after December 1962 and $400 per case after February 1964.

It was not necessary, however, to increase the billing rate in December 1962. Furthermore, it has been possible during fiscal year 1964 to reduce the billing rate to $325 through January 1964, with an expected increase to only $350 after that date. At the volume estimated for 1965, this represents a saving to the Federal Government of about $2 million per year.

This record has been made possible by management measures that improved overall efficiency. Following are several examples:

(*a*) Changed the coverage of investigations to place greater emphasis on more recent experience.

(*b*) Secured agreements with other agencies for making greater use of previous investigations.

(*c*) Established area centers for transcribing reports of investigation at 4 central locations rather than processing them at 11 different geographic locations. The change resulted in fewer supervisory positions, as well as savings in other overhead costs.

(*d*) Arranged for use of GSA automobiles at more economical rates than those for personally owned cars.
(*e*) Increased the emphasis on quality of training and supervision.

CHARITABLE FUND RAISING IN THE FEDERAL SERVICE

Mr. OSTERTAG. I would like to raise a question, Mr. Chairman, about your policy regarding deductions authorized from payrolls for charitable purposes. As I understand it, the plan has not yet been adopted?

Mr. MACY. I would be happy to explain it. In fact, I have a letter from Mr. Jonas on this very point. President Kennedy assigned to the Chairman of the Commission in Executive Order 10927 in March 1961 the responsibility for establishing policy with respect to charitable fundraising within the Federal service. It applies to both civilian and military personnel. This was a replacement for a committee operation which had existed previously.

Since that time we have endeavored to work with the charitable organizations, with the managers within the Federal service, and with employee groups to work out a charitable giving program that would produce funds for worthwhile causes that meet the criteria for solicitation on the job within the Federal Government.

We have been concerned about the amount of time that is consumed in these charitable drives. Under our standards there are up to three annual drives permitted—one, a fall drive——

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. MACY. This is voluntarily given to the United Fund, Community Chest, International Agencies, Red Cross when it is separate from the United Fund.

Mr. THOMAS. The social service groups have a little fight among themselves.

Mr. MACY. That is right.

Mr. JONAS. What they are complaining about is that they like the payroll deduction for community services——

Mr. MACY. But not the health agencies. My judgment is that the Federal Government cannot permit payroll deductions for one authorized charitable group without authorizing it for others as well. We cannot discriminate in favor of one particular group.

Mr. OSTERTAG. If I may I will inject a point which has come to my attention with regard to the local level, where you have your community chests and programs of that nature. They call attention to the fact that these drives on a national level with professional solicitation, and so on, that the cost almost absorbs the contribution made. If your plan lends itself only to a broad national program, funds going to the national organization and divorces itself from the local picture, then we are in trouble, and that is one of the——

Mr. MACY. It would not do that at all.

Mr. OSTERTAG. Do you get the point?

Mr. MACY. If this were the case this would clearly be objectionable. What we are proposing is to try in eight different cities an experiment to see if we can have in the Federal Government on-the-job solicitation at one time during the year with all of the authorized organizations soliciting concurrently in that drive. The objectives would be

first to respond to an almost universal request from our own employees, from our managers, and from the servicemen to do it that way; secondly, to see if we can reduce the cost to the Federal Government, the taxpayer, of the time that is involved in conducting two or three separate drives.

Mr. OSTERTAG. Loss of service.

COST OF CHARITY DRIVES TO THE GOVERNMENT

Mr. MACY. Loss of service. It is our estimate that at the present time it is costing the Government about $5 million a year to conduct these drives. If we could consolidate the drives into a single combined drive that could be cut at least in half.

PAYROLL DEDUCTION FOR CHARITY

Thirdly, it is our objective to make it possible for the Federal employee to contribute a fair share to these various charitable organizations. Experience in industry, and now increasingly in State government, has been that there is a larger contribution if it can be made through payroll deductions.

We do not feel payroll deductions are possible in the Federal Government if we have several different campaigns with several different systems.

Mr. THOMAS. Why should the Government make a payroll deduction for this? If an employee wants to give why should he not have the privilege to give? If he wants them to jump in the lake why can't he tell them to do that?

Mr. MACY. This is voluntary giving and he would elect to have it deducted, and if he elected——

Mr. THOMAS. How do you arrive at a figure of $5 million?

Mr. MACY. The beneficiary organization would pay for the payroll cost of making that deduction. The $5 million figure as to the cost of administering the fundraising programs at the present time is based——

INDUSTRY CHARITY PRACTICES

Mr. THOMAS. What is industry doing? Are they doing the same thing?

Mr. MACY. Industry very widely is providing payroll deductions at no cost to the beneficiary. We feel the taxpayer shouldn't have to pay this. There are many companies where there is a good deal of management persuasion.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

PLAN FOR FEDERAL PAYROLL DEDUCTIONS

Mr. OSTERTAG. What are you going to charge for costs?

Mr. MACY. Probably come out around $1 a year for the actual handling of the payroll deduction.

Mr. OSTERTAG. Per person?

Mr. MACY. Yes. One of the reasons for the experiments is to determine the costs.

Mr. OSTERTAG. You spoke about a plan. Is the plan now adopted and in force as a pilot operation, or is the pilot operation going to be made and then planned?

Mr. MACY. We have a draft plan which we have just completed in the last few days, which we now propose to send out to the local authorities in the eight centers which would be used as experiments next fall. In the next few weeks it would be a matter of the community representatives reviewing this plan to see how feasible it will be in the cities that have been tentatively selected.

It would then be conducted in those cities next fall, and after that we would evaluate the results and decide whether this was sound, made sense, if the objectives I cited had been met or not, and then we would determine whether it should be extended on an across-the-board basis or not.

Mr. OSTERTAG. On the basis of this $1 assessment?

Mr. MACY. That is a very rough estimate at the moment.

Mr. OSTERTAG. Where would that assessment go?

Mr. MACY. At the point where the money was withheld. This would be money paid by the United Fund to the payroll office of the Air Force, for example, at the Rome Air Materiel Center.

Mr. OSTERTAG. Then what would they do with it?

Mr. MACY. This then would become a Federal receipt and it would be in effect a cost standoff for the money expended in providing the deduction.

Mr. OSTERTAG. Revert back to the Treasury of the United States?

Mr. MACY. Yes.

Mr. OSTERTAG. That is all I have.

Mr. MACY. I would be happy to include in the record if you wish a rather lengthy memorandum I have explaining this which I have been sending out in response to congressional inquiries on this program.

Mr. OSTERTAG. It might be well to insert it in the record at this point.

(The memorandum follows:)

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., January 7, 1964.

Mr. JOHN S. HAYES,
President, United Community Funds and Councils of America, Inc., Broadcast House, Washington, D.C.

DEAR MR. HAYES: Since our meeting of December 19 I have received, as you predicted, a volume of communications from local united funds protesting the proposed experiments with a single Federal service campaign for voluntary health and welfare agencies. Most protests reflect serious misunderstanding of the experiments. In view of my care in advising you at all times and in soliciting your participation at each planning stage, I cannot understand the action of your board in precipitating this widespread opposition based upon inadequate representations of the situation.

I am answering these communications by setting forth the information which your local funds and chests should have been furnished initially in order to judge the usefulness of the experiments. I would greatly appreciate your conveying this same information, as presented below, to all local funds which received earlier communications on this subject from your national office.

To begin with, they should know about the interests of the contributors, which have not been previously explained to them. The contributors are the Federal employees and members of the Armed Forces who currently give more than $20 million a year to help support voluntary health and welfare services, and the Federal Government and the taxpayers who expend some $5 million a year of official time in organizing and conducting the on-the-job solicitations which make these contributions possible.

Employees and servicemen have asked that the two or three separate drives now held each year be combined into one drive. Requests and suggestions to this effect have come from all over the country. Last year, a joint committee representing all major departments and agencies and the presidents of the principal employee organizations examined these proposals and recommended unanimously that a single campaign be tried out.

To the Government and the taxpayers, a single drive would be expected to cause less disruption of the work and to reduce by half the use of Government manpower for this function—a savings on the order of two and a half million dollars a year, by conservative estimate. This potential for cost reduction in Government operations would warrant the experiments even if it were the only consideration.

Secondly, they should know about the interests of communities which may be involved in the experiments.

Your organization and others have sought for several years to have a payroll deduction plan for charitable contributions by Federal personnel—a facility which would make possible larger contributions by spreading them out over the year. Even though payroll payment would be entirely optional with the contributors, it is probable that contributions would at least double if this facility were available. Your own organization, I believe, has estimated an increase from $20 to $50 million. In the past, these proposals have been turned down because the administrative complications in a program of the magnitude and diversity of the Government's make it economically impractical. It would cost too much in proportion to the benefits. But if solicitations are consolidated into a single drive it may be practical, and a payroll payment plan is one of the features of the proposed experiments.

The only economic effect to be expected, then, by the seven or eight communities which may be asked to participate in the experiments is a major increase in the level of Federal support for their voluntary health and welfare services. From this standpoint, a community has nothing to lose and a great deal to gain. If the experiments are successful the cooperation of these communities will not only have shown their interest in meeting the wishes of Federal contributors and the need for economy in Government but will have led the way to increased funds for health and welfare in the thousands of other communities where Federal personnel contribute.

With benefits which seem so apparent, many citizens have asked why the Government does not move ahead directly with a single Federal service campaign.

Experiments are necessary in order to work out a suitable arrangement for the several categories of voluntary agencies in the Federal program. The interest of Federal military and civilian personnel in voluntary health and welfare services has always been broader than the community where they live. Like millions of other Americans, in addition to the services financed by local united funds they have for some 20 years supported national voluntary programs for health research and education, like those of the American Cancer Society and American Heart Association, international people-to-people programs like CARE and Radio Free Europe, and the worldwide welfare, emergency relief and special services to the Armed Forces provided by the American Red Cross. While the national health services and the Red Cross are financed in some communities through united funds, if mutually satisfactory arrangements are available, they also raise funds through independent public campaigns on a national scale. And the international people-to-people programs are not accepted in local funds.

To bring the separate solicitations for these agencies together with the local united fund in a single Federal campaign involves technical difficulties which need to be worked out in order to be fair to all concerned. The presidents of the American Red Cross and the 15 other national voluntary agencies recognized in the Federal fund-raising program have agreed to cooperate in the experiments—not because their organizations want the single campaign, but in deference to the wishes of the contributors and the needs of the Government. Their representatives have been engaged in joint meetings with Federal officials and union leaders for the past several months to develop an experimental plan that will meet the special conditions of the Federal program.

As you are well aware, since a member of your staff has been participating in the joint work group, the experimental plan is not yet completed, and when finished at the national level it still is to be discussed and developed in detail at each test location with the local fund or chest and local chapter representatives of the national agencies. It has been changed since the first draft which was the basis for the critical report to your members. It undoubtedly will

undergo further changes, so it would be pointless for me to comment on specific provisions at this time. It is clear in any event that your board's objection is to the general principle involved in the experiments so my comments will be limited to this area.

Your principal objection is to the idea of combining in one drive the health and welfare agencies which are federated in local united campaigns with the other recognized agencies which conduct independent campaigns on a national scale. The alternative which you propose is for the Government to allow solicitation on the job only for your local united funds and chests. I have previously explained that this is contrary to public policy and to the wishes of our contributors. They currently give $6 million a year to the national health and international service agencies and several million more to the Red Cross. There are many private companies and public jurisdictions which successfully combine independent and federated agencies into a single campaign—the District of Columbia government is good local example. Since each group responds to legitimate needs of the Nation, the particular method of fund raising employed in any community should not be the determinant in providing opportunity for on-the-job contributions.

The viewpoint expressed by your board that it is unfair to your member agencies to associate them in a single drive with national agencies which run independent campaigns seems also to be unrealistic. The experimental plan does not propose to interfere in any way in the internal affairs of a local fund and its members. Their budgetary arrangements, methods of representing members in campaign literature, allocation of receipts and agreements regarding separate campaigns remain untouched. Since 1956, the agencies which are recognized for independent campaigns in the Federal program have accepted similar disciplines to the extent required: an annual appraisal of their programs, administrative operations and financial affairs by our National Eligibility Board and coordination of their solicitations in the Federal service into group campaigns at locations where they are not members of the united fund. The fact that this is done nationally rather than at the local level is in keeping with the nature of their programs and was agreed to at the Government's request, so as to avoid the expensive duplication of effort which would be involved if the heads of Federal field installations had to make these arrangements separately at all locations. The experimental plan does not propose to add or subtract any national agencies from the Federal fund-raising program, simply to combine the local joint campaigns in Federal agencies which they have conducted for the past 8 years with the united campaign of the local fund or chest into a single solicitation. And the on-the-job solicitation is to be organized and manned by Federal personnel using campaign materials and supplies provided by the voluntary agencies as in the separate campaigns in the past.

The purpose of the experiments is to determine whether the present federated and independent campaigns can be combined under the special conditions of the Federal program in a fair and practical arrangement that will be to the mutual benefit of all concerned. If they show that a single drive meets the wishes of our Federal employees and servicemen, makes a significant reduction in administrative expenses for the benefit of the Government and the taxpayer, and increases the level of support for the beneficiary agencies they will be considered successful and the single drive will be extended. If they are not successful the single drive proposal will be discarded.

In view of the purposes and potential benefits to be realized by all concerned, I cannot believe that local united funds and chests will arbitrarily refuse to consider the Government's request for their cooperation.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

Mr. OSTERTAG. There is a great deal of interest and perhaps considerable misunderstanding in connection with this.

Mr. MACY. There is, indeed. In fact the 2,000 letters received have been generated by the national organization representing the United Funds, really based on very incomplete and premature information.

Mr. THOMAS. There is a lot of competition among these various national organizations whose chief business is to raise funds and disburse them. They do a great job—the Red Cross, the March of Dimes,

the Heart Fund, the Community Chest—but they are all in competition for the same charity dollar.

Mr. MACY. Yes, but under the Federal program, and my predecessor was wrestling with this, they were put into three categories—the United Fund and/or the Red Cross; the national health agencies which includes heart, cancer, arthritis, muscular dystrophy, and perhaps the National Foundation; and then a third group of international agencies, Radio Free Europe, American-Korean Relief, Project Hope, and CARE. They are brought together so instead of campaigning as individual organizations they campaign as groups.

Mr. OSTERTAG. Was not the whole theory of these United Fund drives based on the desire to eliminate a constant and repeated solicitation among the people of the community?

Mr. MACY. Indeed.

Mr. OSTERTAG. And put it under one package and allocate it by virtue of whatever agreements and understandings were arrived at?

Mr. MACY. Yes; but the health agencies have not been included in many of the United Fund organizations.

Mr. SHIPLEY. They didn't want to be included at the time.

Mr. MACY. Either that or they tend to be national research organizations rather than locally applied, so they have a somewhat different focus.

Then the international agencies are for money spent overseas.

CONSOLIDATION AND CONDUCT OF CHARITY DRIVES

Mr. JONAS. You have a limitation of one drive or three drives a year?

Mr. MACY. I am trying to bring the three drives together at one time.

Mr. JONAS. One of the persons complaining to me was comparing the community services drive incorporating 43 agencies. How would it be determined whether that group would be the one to make the solicitation as opposed to another single-issue drive?

Mr. MACY. The way drives are conducted within the Federal Government is through the organization of keymen and solicitors within the Government, and each of the organizations which were proposing the single drive would provide their own material to the solicitors within the Federal Government. It would not change the character or integrity of the United Fund but it would be soliciting concurrently with the national health agencies and the international agencies.

Mr. JONAS. All included in the one drive?

Mr. MACY. Yes; but with their own separate information so they would not lose their identity.

Mr. JONAS. There would be no choice as to which group would be permitted to make the drive?

Mr. MACY. All would make the drive and the donor would be permitted to designate the organization to which he wished to make his contribution. Here in Washington we have had a request from the United Givers Fund to include Washington in the experiment.

Mr. EVINS. You will have these in the branch offices?

Mr. MACY. It will be handled by a committee of Federal officials in the eight communities selected. In some cases it will be the officer in charge of a procurement district or the postmaster.

Mr. THOMAS. What are the eight communities?

Mr. MACY. Dover, N.J., built largely around the Picatinny Arsenal; Philadelphia; Macon, Ga., where Warner-Robins Air Force Base is; San Antonio, very heavy Federal population there; Fort Worth, Tex.; Bremerton, Wash., the shipyard; Washington, D.C.; and the Twin Cities.

Mr. OSTERTAG. Would this plan apply to military personnel?

Mr. MACY. Yes. This program I am talking about includes servicemen as well as civilian personnel. This means about 5 million people. This is a very large fundraising target. They contribute about $20 million to charitable organizations every year.

Mr. OSTERTAG. The Civil Service Commission is adopting this plan and putting this into effect, but it seems to me that the military has a certain jurisdiction. Is this a joint operation?

Mr. MACY. It is a joint operation. Let me explain. I am performing this as Chairman on delegation from the President. It does not involve the Commission as an institution. So all the darts should get on this target, not everybody else here.

Mr. THOMAS. Any further questions, gentlemen?

PROGRAM FOR SUMMER EMPLOYMENT

Mr. JONAS. One question. I notice in the paper you have just promulgated an antinepotism plan for summer employment. What is the reason for that?

Mr. MACY. The reason for that, Mr. Jonas, is that in our review of the summer employment practice, we have found that in some instances there have been selections made of youngsters who are the sons and daughters of individuals working in the same agency. We feel this is undesirable, in view of the limited number of summer opportunities that there are.

Mr. THOMAS. I want to commend them for it. Heretofore the only charge of nepotism that we ever heard of in this country was against the legislative branch. There is 10 times more of it in the executive branch. I want to commend you for your stand.

Mr. MACY. That is the explanation.

Mr. JONAS. I wanted to see how far it goes. Would it apply to, say, an individual agency within a department or would it apply departmentwide?

Mr. MACY. Departmentwide. In other words, if there is a supervisor in the Pentagon in the Department of the Army, it would mean a son or daughter could not be employed anywhere in the Department of the Army, and not just in Washington but throughout the United States.

Mr. OSTERTAG. Nepotism is not where, say, a man and his wife are both employed by the Government?

Mr. MACY. What we are saying is that a son or daughter may not be selected for summer employment in the same department where the head of the family is working.

Mr. THOMAS. Why limit it to the same department? They all live in the same house. It ought to be throughout the Government.

Mr. MACY. Mr. Chairman, here in Washington, where really it is a one-industry town—if we were to make this Government-wide, it

would really preclude youngsters, that do need to earn some money during the summer, from any opportunity to do so.

Mr. THOMAS. Does it apply only to youngsters?

Mr. MACY. These youngsters will have to meet competitive standards in order to get employment anyway. What we are doing is adding a further limitation.

Mr. OSTERTAG. It is only summer employment, is it not?

Mr. MACY. Just summer employment.

Mr. OSTERTAG. Temporary in nature?

Mr. MACY. The employment does not exceed 90 days.

Mr. SHIPLEY. What is to prevent someone from the Labor Department hiring somebody's son whose father works for the Post Office Department?

Mr. MACY. I would say with President Johnson's economy drive there are not going to be very many summer jobs.

Mr. SHIPLEY. I am for that.

Mr. THOMAS. Gentlemen, we thank you all very much. Bring your staff back every year. We want all of you to come. Thank you very much.

MONDAY, FEBRUARY 10, 1964.

VETERANS ADMINISTRATION

WITNESSES

J. S. GLEASON, JR., ADMINISTRATOR
W. J. DRIVER, DEPUTY ADMINISTRATOR
A. H. MONK, ASSOCIATE DEPUTY ADMINISTRATOR
A. T. McANSH, ASSISTANT DEPUTY ADMINISTRATOR
J. D. SHYTLE, CONTROLLER
V. P. MILLER, DIRECTOR, BUDGET SERVICE
B. E. TURNER, ASSISTANT ADMINISTRATOR FOR MANAGEMENT AND EVALUATION
E. J. GORMAN, MANAGER, ADMINISTRATIVE SERVICES
W. O. UNDERWOOD, ASSISTANT ADMINISTRATOR FOR PERSONNEL
R. C. FABLE, JR., GENERAL COUNSEL
J. W. STANCIL, CHAIRMAN, BOARD OF VETERANS APPEALS
F. R. HOOD, DIRECTOR, INFORMATION SERVICE
C. C. COOK, DIRECTOR, SUPPLY MANAGEMENT SERVICE

ASSISTANT ADMINISTRATOR FOR CONSTRUCTION

L. G. SCHWEICKART, EXECUTIVE ASSISTANT
J. C. GARVER, CHIEF, PROGRAM CONTROL DIVISION
C. W. DUGGAR, CHIEF, BUDGET AND ACCOUNTING SECTION
F. J. BURNS, BUDGET ANALYST

DEPARTMENT OF DATA MANAGEMENT

P. J. BUDD, CHIEF DATA MANAGEMENT DIRECTOR
C. B. DRINKARD, DIRECTOR, RESOURCES SERVICE

DEPARTMENT OF MEDICINE AND SURGERY

DR. J. H. McNINCH, CHIEF MEDICAL DIRECTOR
DR. H. MARTIN ENGLE, DEPUTY CHIEF MEDICAL DIRECTOR
DR. L. A. ZINK, ASSISTANT CHIEF MEDICAL DIRECTOR FOR PLANS AND COORDINATION
R. W. WISE, ACTING CONTROLLER, DEPARTMENT OF MEDICINE AND SURGERY
DR. O. K. TIMM, ASSISTANT CHIEF MEDICAL DIRECTOR FOR PROFESSIONAL SERVICES
DR. M. J. MUSSER, ASSISTANT CHIEF MEDICAL DIRECTOR FOR RESEARCH AND EDUCATION IN MEDICINE
DR. A. J. KLIPPEN, DEPUTY ASSISTANT CHIEF MEDICAL DIRECTOR FOR PLANS AND COORDINATION
W. M. McCOY, DIRECTOR FOR ADMINISTRATIVE SERVICES
D. I. ROSEN, DIRECTOR, REPORTS AND STATISTICS SERVICE
DR. E. C. GLUCKMAN, DIRECTOR, MEDICAL FACILITIES REQUIREMENTS SERVICE
R. H. BUCKNELL, DIRECTOR, VETERANS CANTEEN SERVICE
G. C. PARMELEE, DIRECTOR, SUPPLY SERVICE

DEPARTMENT OF VETERANS' BENEFITS

C. E. BRICKFIELD, CHIEF BENEFITS DIRECTOR
A. W. STRATTON, DEPUTY CHIEF BENEFITS DIRECTOR
A. W. FARMER, DIRECTOR, COMPENSATION AND PENSION SERVICE
J. M. DERVAN, DIRECTOR, LOAN GUARANTY SERVICE
E. R. SILBERMAN, CONTROLLER, DEPARTMENT OF VETERANS' BENEFITS
T. KIERNAN, ACTING DIRECTOR, INSURANCE SERVICE
P. H. THOMAS, DIRECTOR, GUARDIANSHIP SERVICE
W. B. GUNDLACH, ACTING DIRECTOR, VOCATIONAL REHABILITATION AND EDUCATION SERVICE
J. G. MILLER, DIRECTOR, CONTACT AND ADMINISTRATIVE SERVICE
W. A. POISSANT, CHIEF ACTUARY

Mr. THOMAS. Gentlemen, will the committee please come to order?

We have with us this morning the Veterans' Administration and we are always delighted and honored to have the distinguished Administrator.

PURCHASE OF X-RAY FILM DEVELOPMENT EQUIPMENT

Dr. Drinkard, you did not buy those sorry machines over in the medical department, did you? I mean those X-ray machines worth about $800,000?

Mr. DRINKARD. No, sir.

Mr. THOMAS. Were those procured out of Somerville or Hines?

Dr. McNINCH. Somerville.

Mr. COOK. We purchased them in Somerville.

Mr. THOMAS. Did you buy them?

Mr. COOK. I did not personally buy them; no, sir.

Mr. THOMAS. Your crowd did?

Mr. COOK. Yes, sir.

Mr. THOMAS. You had better be thinking of a good excuse.

Mr. JONAS. He means he did not personally pay for them.

Mr. THOMAS. What kind of a machine was it?

Mr. COOK. X-ray film developing machine.

Mr. THOMAS. Did private hospitals throughout the country buy these machines?

Mr. COOK. There were some private hospitals that bought them, too.

Mr. THOMAS. Do you have any recourse?

Mr. COOK. That is still under consideration of our legal people, I think, Mr. Chairman.

Mr. THOMAS. They have already gotten the money and you have the machines?

Mr. COOK. Yes, sir.

Mr. THOMAS. Are they still in business?

Mr. COOK. No, sir.

Mr. THOMAS. You did not need your lawyers to tell you where you were sitting, did you?

Then we have Dr. McNinch, Chief Medical Director.

Doctor, we confirmed you the other day by unanimous consent and great pleasure.

Dr. MCNINCH. Thank you, sir.

Mr. THOMAS. It is a good thing you were not here when we bought those machines.

I see we have one of our oldtimers here, Dr. Zink and Dr. Engle is another one of our favorites.

Then I see we have Mr. Wise, Acting Controller, Department of Medicine and Surgery.

Doctor, you sure do spend a lot of money. You go up every year and you had better get ready to straighten out your figures. The very idea of showing a 10,000-patient-treated increase at a cost of $24 million.

Figure out what it costs you to treat your 720,000 patients.

Mr. WISE. Thank the pay raise. It is mostly that.

Mr. THOMAS. That is $11 million and you are a long way off from your $24 million.

Everybody else got paid and you are just charging this pay act increase to that 10,000 extra patients?

Mr. WISE. There are quite a few others, Mr. Chairman.

Mr. THOMAS. Get your pencil ready, Doctor. We are going to do business with you soon.

Mr. Administrator, you have a most able and distinguished group and we welcome all of you and we like to meet with you.

We were looking over your grade 17's and 18's and although you have many, perhaps not enough by and large, we think you are all doing a tremendous job, Mr. Administrator.

On this excess of $5 billion, we have a few little petty squawks and squabbles but we have no scandal and I think it is a tribute to the Administration.

Mr. Administrator, if you or any of your associates have a statement for us, we will be delighted to listen to you.

General Statement

Mr. Gleason. Mr. Chairman and gentleman of the committee, I am honored to appear before you today with my staff to discuss our 1965 appropriation requirements. The interest and deep insight of this committee in the programs and operations of the Veterans' Administration always makes this a valuable and welcome experience.

Our budget estimates for fiscal year 1965 total $5,442,971,000. This represents an increase of $41,108,000 over the amounts appropriated for fiscal year 1964, including pending and proposed supplementals. Before discussing the major elements of our budget requests, I would like to mention briefly some of the specific actions we have taken during the past year to improve service and reduce costs in the Veterans' Administration. We have—

(1) Closed regional offices at Dallas and Philadelphia, transferring these operations to Waco and the VA Insurance Center, Philadelphia, respectively.

(2) Completed conversion of national service life insurance and U.S. Government life insurance operations to automatic data processing. We are now maintaining almost 6 million insurance accounts by electronic computer systems.

(3) Consolidated insurance operations of our Denver and St. Paul offices at St. Paul; and, in central office, merged the former Department of Insurance with the Department of Veterans' Benefits.

(4) Consolidated vocational rehabilitation and education activities at selected field locations.

(5) Established a Department of Data Management to bring under a centralized organization all data processing activities of the agency—an action which will produce significant future savings; and

(6) Reduced employment in nonmedical programs from a 1963 average of 19,388 to 18,394 in 1964—a reduction of almost 1,000.

I am proud of these accomplishments. But, we do not intend to stop here. Our 1965 budget request now before you contemplates further economies and improvements in operations:

It anticipates increased employee productivity through improved work methods and operating procedures;

It provides for extending the application of automatic data processing methods to additional VA programs and activities;

It contemplates continued study of the feasibility of consolidating activities and closing field offices wherever possible without impairment of service to veterans;

It provides for continued improvement in the quality of medical care;

It anticipates further reductions in employment in administrative programs; and

In line with recommendations of this committee, it reflects reductions in employee travel and printing, below our 1964 budget estimates.

Turning now to our budget estimates, by appropriation item—a comparative summary of these estimates is provided in the accompanying table. First:

GENERAL OPERATING EXPENSES

As you know, this appropriation supports our staff services, the Department of Veterans' Benefits, and the Department of Data Managment. Our estimate of $156,524,000 is a reduction of $3,226,000 from the appropriation for the current year. Actually, the effective reduction is over $6 million, since our 1965 estimate includes additional statutory salary rate increases and data processing functions previously financed under other appropriations.

STAFF SERVICES

The 1965 estimate for staff services contemplates a reduction of 77 in average employment below our estimate for 1964. Most of this reduction will be accomplished in the Board of Veterans Appeals and in administrative services. Public Law 87–666, which modifies appellate procedures by requiring that field offices furnish each appellant with a "statement in the case," has resulted in reduced workloads in the Board of Veterans Appeals, and we are projecting a decrease of 43 in average employment for the Board. In administrative services, a decrease of 29 in average employment is anticipated through improved procedures and realinement of functions to further increase productivity of personnel.

DEPARTMENT OF DATA MANAGEMENT

As I stated earlier, this Department was established to bring together in one organization all data management activities of the agency. It was implemented in 1963 with average employment of 818. These 818 employees were merely transferred from other organizational elements into the new Department. Employment in the current year will average 872, and we are projecting an increase to 920 in 1965.

Mr. THOMAS. It is still located out at Hines?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Can you account for this 900 on offsets in your other divisions to make up for that 900 or 920 in other departments?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Go ahead.

Mr. GLEASON. You understand, Mr. Chairman, this also includes our Philadelphia Computer Center as far as data processing is concerned.

Mr. THOMAS. All?

Mr. GLEASON. Yes, sir.

We consider this prudent in terms of the potentials for significant cost reductions throughout the agency from further installation of automatic data processing systems. The additional manpower planned for 1965 will allow us to accelerate the development of new ADP applications and to continue to refine and update existing systems. At this point, I would like to again reiterate my firm belief in automation as the way of the future. We must have insight enough to continue to experiment and explore the vast potentials that are now present for automatic processing in the Federal service. This increase in employment of 48 in 1965 over 1964 is more than offset by gains in practically every operating element of the Veterans' Ad-

ministration. These gains are only the beginning, gentlemen, if we have foresight enough to research all possible avenues now available to us. I know, as evidenced by your past action, that I have your full support in this endeavor. We will be happy to discuss the specific projects we have underway, or planned, during the course of these hearings, if you desire.

DEPARTMENT OF VETERANS BENEFITS

Requirements for this Department in 1965 are estimated at $132,437,000 which is a reduction of $5 million below requirements for the current year. This reduction is planned, notwithstanding salary increases authorized by Public Law 87–793 which will approximate $2.2 million more in 1965 than in 1964.

Our estimate contemplates a reduction in average employment of 589, attributable to reduced workloads, further increases in employee productivity, and expanded use of ADP.

We are making significant strides in reducing employment in the guardianship program through streamlining our operations. We expect to be able to decrease average employment in this program from 1,450 this year to 1,390 in 1965. This will be accomplished with no decrease in essential service to the veteran or his dependents or beneficiaries.

It will be necessary to increase employment slightly in the compensation and pension program in 1965 to keep abreast of increasing workloads in dependency and income claims, and new death and burial claims. However, increased productivity projected for this function will limit the increase to only 10 man-years.

The vocational rehabilitation and education program will decline sharply, as the Korean conflict readjustment training program terminates on January 31, 1965. War orphan trainees will remain fairly constant through 1965. There will be a slight increase in the number of disabled peacetime veterans in training, due to Public Law 87–815, approved October 15, 1962, which extended vocational rehabilitation benefits to peacetime veterans. In aggregate, we estimate that the total trainee load will decline from 46,500 in 1964 to 29,300 in 1965. To cope effectively with this declining workload, we consolidated the activities of the vocational rehabilitation and education program with the compensation and pension program, effective February 1, 1964. Commensurate with the declining workload, our 1965 average employment estimate for vocational rehabilitation and education of 470 is approximately 20 percent below the estimated level for the current year.

Merging the Insurance Department with the Department of Veterans Benefits, consolidation of offices, and extension of automatic data processing has made it possible for us to achieve significant savings in the insurance program. Average employment for field activities of 1,852 in 1963 is reduced to 1,390 in 1964, and we anticipate a further reduction to 1,259 in 1965.

Consistent with reduced employment in substantive program areas, we are also projecting less employment in office services, which provide administrative support for these programs. Our estimate for 1965 reflects a reduction in average employment of 175 below the current year.

Mr. EVINS. Mr. Chairman, will you permit an interruption at this point?

Mr. THOMAS. Surely.

REDUCTIONS IN PERSONNEL AND COSTS

Mr. EVINS. I think you are to be commended, Mr. Administrator, for a reduction in personnel and consolidations of various activities, but on first impression it is difficult to see how you could reduce veterans' benefits by $5 million and also absorb $2.5 million pay raise costs without reducing benefits to veterans.

Mr. GLEASON. Sir, this is strictly in employment we are able to do this.

Mr. EVINS. All this savings?

Mr. GLEASON. Yes, sir.

VOCATIONAL REHABILITATION AND TRAINING

Mr. EVINS. One further observation. We are extending vocational rehabilitation and training in many fields and establishing trade schools and skill schools throughout the Labor Department as well as other Departments at this time.

Is your veterans training program declining? It seems to be and this would tie in with other programs for civilians?

Mr. GLEASON. Yes, sir. As we pointed out in the testimony, Mr. Evins, the Korean GI program ceases on January 31, 1965.

Mr. EVINS. You have no further training for veterans in various skills?

Mr. GLEASON. That is right for nonservice connected. The service disabled and war orphan training, of course, will continue.

Mr. THOMAS. Go ahead.

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

Mr. GLEASON. We are requesting $14,915,000 under this heading for 1965, an increase of $115,000 over the appropriation for the current year. This increase is required to meet the full year cost of the second step of the pay raise under Public Law 87-793. The amount for 1965 continues, generally, the current year employment level and provides for completion of the Special Nursing Home Study authorized by the Congress in the 1964 appropriation.

MEDICAL AND PROSTHETIC RESEARCH

For medical research, our 1965 request of $35,712,000 represents an increase of $3,140,000 over the amount appropriated in 1964. The increase will continue the orderly growth pattern that has prevailed during the past few years and is in accord with our long-range plan for this program.

For prosthetic research, $1,275,000 is requested, a modest increase of $105,000 over 1964. This amount will permit us to continue our position of leadership in this field which is so important to the health and self-sufficiency of disabled veterans.

MEDICAL CARE

We are requesting $1,115,935,000 for medical care in 1965, an increase of $24,170,000, or about 2 percent over 1964.

Over half of this increase, $13 million, is attributable to increased salary costs; approximately $6 million is required to more adequately maintain aging facilities; $3 million is to meet additional workload requirements related to new or expanded facilities; and approximately $3 million is to provide for improvement in professional staffing and to cover increases in cost of drugs, medicines, prostheses, and utilities.

Within our request, we plan to activate approximately 2,000 nursing care beds. This will require some alteration of existing facilities and additional equipment. A supplemental appropriation under the "Construction" appropriation is proposed in 1964 for this program. It will be submitted as soon as alteration and equipment requirements are developed. At that time, we will also be in a position to advise you of our schedule for activating these beds.

In 1965, we plan to operate 120,249 hospital beds and 16,679 domiciliary beds, with an average daily hospital patient load of 110,318 and an average daily domiciliary load of 15,448. Including contract hospitals and State homes, a total daily average beneficiary load of 137,222 is planned. While the average daily patient load is continued at the 1964 level, the total number of inpatient beneficiaries treated will increase from 720,000 to 730,000 by increasing patient turnover rates.

Our request contemplates an average employment of 120,201 in our hospitals and domiciliaries in 1965, an increase of 933 over planned levels for 1964. This will permit improvement in staffing ratio of 7 per 1,000 daily patient load. Of the 933 increase in average employment, 358 is related to new facilities and medical services and 575 to other improvement in patient care and maintenance of facilities.

Major items provided for in the increase requested for 1965 include—

1. Activation of a new and larger hospital in Washington, D.C.; and a new restoration center at East Orange, N.J.;
2. Establishing or strengthening medical and surgical bed sections at nine neuropsychiatric hospitals;
3. Provision for improved care for the medically infirm psychiatric patients in our older and larger NP hospitals;
4. Establishing treatment centers at nine general hospitals for dialysis of patients suffering from chronic and severe renal failure;
5. Provision for improved maintenance and repair of our aging medical facilities;
6. Activation and staffing of five new psychiatric day care centers; and
7. Provision for increased usage and cost of drugs, medicines, medical supplies, utilities, and prostheses.

Advances in medical science continue to increase the ability of the medical profession to conserve and extend human life. But, each step forward involves additional costs for new treatment modalities and procedures. We cannot maintain our relative position of leadership in the field of medicine without application of additional resources.

We have given serious consideration to this problem as it relates to our budget request for 1965, and feel that the amount requested is the bare minimum required to continue the level and quality of medical care we desire to furnish the veterans of our Nation.

CONSTRUCTION

Our 1965 construction appropriation request of $102 million represents the fifth increment under our long-range hospital modernization and replacement program. Major items included are:

1. Construction funds for a replacement 1,200-bed hospital building at Hines, Ill.
2. Construction funds for a new 1,040-bed hospital at Los Angeles, Calif.
3. Construction funds for a replacement 720-bed hospital at San Juan, P.R.
4. Design and site funds for a new 760-bed general hospital at Chicago, Ill.
5. Funds to continue modernization and improvement of our pre-World War II hospitals.

Gentlemen, I think we have made tremendous strides in this program in the past several years. I promised you last year that we would reduce our annual unobligated balance to a lower figure. I can state now that we expect our unobligated balance at the end of 1964 to be less than $20 million, which represents the minimum balance needed for completion of projects under construction. We are proud of this accomplishment.

We share the concern expressed by this committee last year regarding the cost of hospital construction and are continuing to explore all possible means to insure that they are held to a minimum. During the past year, we have:

1. Continued an aggressive program of developing and maintaining minimum space criteria for medical facilities;
2. Kept abreast of new developments in construction, materials, and techniques;
3. Developed plans for a psychiatric bed building to be constructed of prefabricated components to test possible economy; and
4. Established a construction advisory council composed of outstanding hospital planners, architects, and engineers outside Government to advise us in all aspects of our construction program.

In the face of rising construction costs, advances in medicine that require additional space and technical equipment, increasing requirements for mechanical systems for air conditioning, communications, and supplies, we believe our unit costs are prudent and compare favorably with other public and private hospital construction costs.

COMPENSATION AND PENSION

We are requesting $3,963 million under this title for 1965, an increase of $33,400,000 over costs for the current year. These funds are to finance an average caseload for compensation and pensions of 4,460,460, which is an increase of 70,550 over the current year level.

Pension payments are estimated at $1,778,160,000 for 1965, an increase of $35,525,000 over 1964. Our pension rolls are expected to continue to increase, due to the advancing age of the veteran population. Budget requirements are predicated on an estimate of 2,106,275 cases on the rolls in 1965, an increase of 77,615 cases over the current fiscal year.

Estimated compensation payments for 1965 of $2,121,488,000 represent a decrease from 1964 of $4,500,000. The decrease continues our past experience and is due primarily to deaths of veterans now on the rolls.

Our estimate includes $771,000 under this title for burial flags and tort claim settlements which were previously funded by the "General operating expenses" appropriation.

READJUSTMENT BENEFITS

Costs for 1965 are estimated at $43,570,000, compared with $64,704,000 for the current year, a reduction of over $21 million. Estimated unobligated balances to be carried forward from this year will further reduce 1965 appropriation requirements to less than $40 million.

Our estimate for "Education and training" of $33,130,000 represents a decrease of $21,857,000 from 1964. This large decrease reflects the termination of the readjustment training program for Korean conflict veterans on January 31, 1965.

We estimate a training load of 15,000 under the war orphans' program in 1965, compared with 15,500 for the current year. The 1965 estimate of $24,500,000 for this purpose is a decrease from 1964 of $920,000.

Our 1965 requirements for "Special assistance to disabled veterans" is estimated at $10,440,000, an increase over 1964 of $723,000. This increase results from the effects of Public Law 87–815, approved October 15, 1962, which extended vocational rehabilitation benefits to peacetime veterans.

GRANTS TO THE REPUBLIC OF THE PHILIPPINES

We are requesting $310,000 for "Grants to the Republic of the Philippines" in 1965, the same as was provided in 1964. These grants are in the nature of reimbursements at agreed-upon per diem rates for medical care and treatment of Philippine Commonwealth Army veterans.

VETERANS INSURANCE AND INDEMNITIES

We are requesting $13,700,000 in the veterans insurance and indemnities appropriation for 1965. This account provides direct appropriations for insurance and servicemen's indemnities programs. The amount requested is $16,500,000 less than the 1964 appropriation. The decrease results principally from completion of installment payments on indemnities to beneficiaries of Korean conflict veterans.

LOAN GUARANTEE AND DIRECT LOAN REVOLVING FUNDS

Our budget for 1965 contemplates that receipts from loan repayments and sales of loans and properties will be sufficient to finance operations in the loan guarantee and direct loan revolving funds without additional appropriations. However, I wish to apprise you of the status of these programs because of problems involved in their management and, also, to request certain changes in appropriation language.

LOAN GUARANTEE REVOLVING FUND

The high cost of claims, property acquisitions, and other loan guarantee program operations presents a continuing problem. Although our estimates for 1964 and 1965 contemplate decreases from the 1963 level, our experience to date in 1964 indicates that our estimated cost of $290 million may be too low. The principal source of revenue to meet these costs will continue to be provided by the sale of vendee loans. Our budget estimates proceeds from this source of $224 million in 1964 and $265 million in 1965. These estimates assume a favorable market for these loans. If such a market is not available, or, if expenditures substantially exceed our estimates, it may be necessary for us to request supplemental appropriation relief. In any event, due to the uncontrollable nature of the expenditures involved in our loan guarantee operations, we are again requesting that the limitations on these expenditures be removed in 1965.

DIRECT LOANS

It is estimated that accumulation of unused borrowing authority from past years, receipts from loan repayments, and proceeds from sale of loans will be sufficient to meet direct loan expenditure requirements in 1965. Legislative action to rescind the $150 million authorized to be advanced to the fund in 1965 is, therefore, being proposed.

PROPOSED SUPPLEMENTAL APPROPRIATIONS FOR 1964

Three supplemental appropriations are proposed for 1964. This committee has already held hearings on the one to provide for wage rate increases under the medical care appropriation. Hearings are pending on another to provide for construction of the Corregidor-Bataan Memorial, which I understand is under the jurisdiction of another committee. A third supplemental to cover alterations and equipment necessary to activate 2,000 nursing home beds will be transmitted to the Congress as soon as requirements for this purpose are fully developed.

This concludes my opening statement. I, and members of my staff, will be pleased to supply any further information you may desire.

COMPARISON OF 1964 AND 1965 BUDGETS

If I may I would like to insert this table summarizing the budget estimates.

(The table follows:)

Appropriation	Appropriated, fiscal year 1964 [1]	Estimate, fiscal year 1965	Decrease (−) or increase (+)
General operating expenses	$159,750,000	$156,524,000	−$3,226,000
Medical administration and miscellaneous operation expenses	14,800,000	14,915,000	+115,000
Medical and prosthetic research	33,742,000	36,987,000	+3,245,000
Medical care	1,091,765,000	1,115,935,000	+24,170,000
Construction of H. & D.F.	81,796,000	102,000,000	+20,204,000
Compensation and pensions	3,921,000,000	3,963,000,000	+42,000,000
Readjustment benefits	67,000,000	39,600,000	−27,400,000
Veterans insurance and indemnities	30,200,000	13,700,000	−16,500,000
Grants to Republic of the Philippines	310,000	310,000	
Construction, Corregidor-Bataan Memorial	1,500,000		−1,500,000
Total	[2] 5,401,863,000	[3] 5,442,971,000	+41,108,000

[1] Includes the following pending and proposed 1964 supplemental requests:

Medical care	$10,579,000
Construction of hospital and domiciliary facilities	5,000,000
Construction, Corregidor-Bataan Memorial	1,500,000
Total	17,079,000

[2] Excludes direct loans of $150 million and permanent indefinite of $800,000 in V.I. & I.
[3] Excludes permanent indefinite in V.I. & I. of $800,000.

Mr. THOMAS. Mr. Administrator, a nice compact, terse statement.

TOTAL PAY ACT COSTS

What is the cost of the pay act for the entire Agency? That is the first thing we want to know.

Mr. MONK. $75 million; that includes the first and second stage.

Mr. THOMAS. I am talking about it for this fiscal year.

You have already been appropriated for the first half but what is involved in this budget?

Mr. SHYTLE. 1964?

Mr. GLEASON. No; 1965.

Mr. SHYTLE. Step 1 is $45 million for 1965 and step 2 is $30 million.

Mr. THOMAS. What is involved?

Mr. GLEASON. $75 million.

Mr. SHYTLE. For 1965; yes, sir.

Mr. THOMAS. The whole $75 million?

Mr. SHYTLE. Yes, sir.

Mr. OSTERTAG. What do you mean by step 2?

Mr. THOMAS. That is involved now but your entire pay act cost you $75 million?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. 2.5 percent of your budget, or $30 million?

Mr. SHYTLE. $30 million for step 2 that became effective January 4.

Mr. OSTERTAG. The fiscal year does not begin until July so it could not be both steps.

Mr. SHYTLE. In 1964, step 2 cost $15 million; step 1 cost $45 million. This year we are spending for pay raises, the year we are in now,

$60 million. The 1965 projection has built in the $75 million for a total annualized amount effective for both steps.

Mr. OSTERTAG. As far as fiscal year 1965, it is just one figure?

Mr. GLEASON. That is right.

Mr. OSTERTAG. That is $75 million?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. What is involved in this budget we are considering now, the amount you just gave?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. What did it cost you last year?

Mr. SHYTLE. Last year it cost $33 million. Last year's pay raise went into effect on October 14 so we had a part of the year and it ran a little over $30 million for 1963.

Mr. THOMAS. What is the total pay raise, 7.5 percent in two steps?

Mr. SHYTLE. It has been more than that—about 10 percent.

Mr. MONK. It varied with the grade.

Mr. THOMAS. Was it 10 or 11 percent overall in the two steps?

Mr. SHYTLE. Something like that.

Mr. THOMAS. This is the last step?

Mr. SHYTLE. That is right, built into 1965.

Mr. THOMAS. The last step and the first step are both built into this budget at $75 million?

Mr. SHYTLE. $75 million.

Mr. THOMAS. For 1965?

Mr. SHYTLE. Yes, sir.

Mr. THOMAS. Were you able to absorb any of this?

Mr. SHYTLE. We absorbed a great deal of it last year.

Mr. THOMAS. You know you do not get any credit in here for past favors. What did you do this year?

Mr. SHYTLE. We absorbed last year——

Mr. THOMAS. Forget last year. We are talking about 1965.

Mr. SHYTLE. When we absorbed last year, we changed our base.

Mr. THOMAS. We are working on this budget and the answer is "None"? I fear that is what it is.

Mr. SHYTLE. Specifically, as such, we did not absorb anything this year but we built from a base that was changed because we absorbed last year in some of our programs.

Mr. EVINS. The two pay raises, $75 million?

UNOBLIGATED BALANCES

Mr. THOMAS. Are you going to have any unobligated amounts in any of your accounts?

Mr. GLEASON. Not for 1965; no, sir.

Mr. SHYTLE. We are not estimating any for 1965 at all.

Mr. THOMAS. None of your accounts?

Mr. SHYTLE. No, sir.

Mr. THOMAS. Benefits or medical administration?

Mr. SHYTLE. No, sir; we have a chart on that.

Mr. THOMAS. Hospitalization, none of it? Compensation and pensions?

Mr. GLEASON. We may have to be back in 1964 on compensation and pensions.

On page 3–2 we have a rundown of the unobligated balance and at the end of this year, 1964, we will have $1,217,000 in general operating expenses.

Mr. Chairman, the middle four columns in fiscal year 1964 estimated shows an unobligated balance of $30,386,000.

Mr. THOMAS. What about this figure of $30,386,000?

Mr. GLEASON. $17.4 million of that is in construction of H. & D.F.; $7.5 million of that is in veterans' indemnities and——

Mr. THOMAS. Your figure for the whole operation is $30,386,000?

Mr. GLEASON. You will notice in 1965, Mr. Chairman, the unobligated balance is all in construction and veterans' insurance and indemnities and only $343,000——

Mr. THOMAS. I do not know what the figure on your unobligated balance is for 1965. You have not gone into that and you do not have your funds?

Mr. SHYTLE. We would hate to come up here and ask you for money now for an estimate that would be unobligated at the end of 1965. We are not doing that.

Mr. THOMAS. We did not ask you that.

How much did you have unobligated for the present fiscal year? The answer is $30,386,000?

Mr. GLEASON. Yes, sir.

Mr. Ostertag, you will note that on June 30, 1963, construction unobligated was $72.5 million and we will be down to under $20 million on June 30, 1964.

Mr. EVINS. Mr. Chairman, I have just one or two questions. Mr. Administrator, I concur with Chairman Thomas in commending you on your great work.

NUMBER OF HOSPITAL BEDS

However, regarding the number of hospital beds, I am interested in the figures shown on page 7. You state that you plan to operate 120,249 hospital beds and 16,679 domiciliary beds. Your average daily patient load for hospital beds is 110,318 and it is 15,448 for domiciliary beds. Then when you add contract hospitals and State homes, that makes a total average bedload of 137,222 according to your statement.

What is the statutory limit on hospital beds for the Veterans Administration?

Mr. GLEASON. There is no statutory limit, Mr. Evins. There is an Executive order which limits us to 125,000.

Mr. EVINS. This is a limitation?

Mr. GLEASON. Yes, sir.

Mr. EVINS. This is by Executive order but how many times has that limitation been revised upward?

Mr. GLEASON. To my knowledge, it has never been revised upward.

Mr. EVINS. I had the impression that it was about 115,000.

Mr. GLEASON. No; in that connection, Mr. Evins, we are talking of the average daily patient load.

Mr. EVINS. We understand 110,000 is the average daily patient load, but the Executive order——

Mr. GLEASON. We are planning 110,318 average daily patient load which is about the maximum that we can provide within the beds we

operate. That makes 91 or 92 percent occupancy for 120,249 operating beds in our own hospitals.

Mr. EVINS. This 110,000 average daily patient load does not include your domiciliary patients?

Mr. GLEASON. No, sir. This is just hospital beds.

Mr. EVINS. If you increase your domiciliary beds, and as you plan to build up your nursing home situation, then what happens?

Mr. GLEASON. We do not plan to build up the domiciliary beds.

Mr. EVINS. The domiciliary bed number decreases?

Mr. GLEASON. It well may in the years ahead; yes, sir.

NURSING HOME BEDS

Mr. EVINS. How many nursing home beds do you plan if the supplemental appropriation is approved? How many will that increase the average daily patientload? I am trying to get an overall, encompassing and round figure of the veteran population in hospital beds, nursing homes, domiciliaries, and contract hospitals. I think when we consider the average daily patientload of hospital beds, it does not look so large in consideration of what we have thought of over the years. However, when you add these auxiliaries and extras, the total number is mounting each year; is it not?

Mr. GLEASON. No, sir.

Mr. EVINS. It will increase with your nursing home beds?

Mr. GLEASON. No, sir; because we plan to be able to take care of the nursing home patients through an increase in patient turnover rate.

Mr. EVINS. Your contract hospitals and State homes are not included in your average daily patientload?

Mr. GLEASON. Yes, sir. They are in the overall load of 137,222, but not within the 125,000 limitation.

Mr. OSTERTAG. That is the 137,222?

Mr. GLEASON. That is right; yes, sir.

Mr. EVINS. These are not included in your limitation and this is the point. I am not trying to suggest any deviation, but I am trying to suggest that there are ways and means of having more veterans in hospital beds than your Executive order would limit.

Mr. GLEASON. No, sir; contract hospitals are very limited. We do have a great number of contract beds in Puerto Rico right now, and that is why we are building a veterans' hospital there so the veterans will not be in contract hospitals. The only other ones that are permitted to be in private hospitals under contract with the Government are service-connected cases that cannot possibly be brought to a veterans' hospital or women veterans who, for one reason or another, cannot be cared for in a VA facility. We just do not have the resources to take care of them in our own hospitals.

Mr. EVINS. The new hospital construction program you have planned in your 1965 budget will envision the transferring of patients from contract hospitals into Veterans Administration hospitals?

Mr. GLEASON. Yes, just as soon as we can get the hospital constructed in Puerto Rico this will happen. This will not completely eliminate contract hospitalization, you understand, but it will certainly reduce it a great deal.

NUMBER OF HOSPITAL BEDS

Mr. OSTERTAG. Your authority, Mr. Administrator, deals with 125,000 hospital beds?

Mr. GLEASON. It deals with a total of 125,000 authorized hospital beds.

Mr. OSTERTAG. Those are veterans' hospital beds?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Nothing more, nothing less?

Mr. GLEASON. Veterans Administration hospital beds; yes, sir.

Mr. OSTERTAG. It does not deal with average patient load?

Mr. GLEASON. No, sir.

Mr. OSTERTAG. You must operate within the framework of that particular number of beds?

Mr. GLEASON. That is correct.

Mr. EVINS. That is as far as hospital beds are concerned.

Mr. OSTERTAG. That is what I am trying to clear up. In that connection, as Mr. Evins pointed out, you supplement other facilities such as contract hospitals, State homes, and the like, all of which——

Mr. GLEASON. State homes would not be included as a hospital bed.

Mr. OSTERTAG. I understand; this does not include domiciliary beds?

Mr. GLEASON. No, sir.

Mr. OSTERTAG. The limitation and restriction which you are under by Executive order is 125,000 hospital beds in veterans' hospitals, and you anticipate an average daily load of 110,000?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Thank you.

Mr. GLEASON. That is operating at 91 to 92 percent occupany. The normal private hospital operates at 75 to 80 percent of capacity. If they could operate at 90 percent they would be receiving congratulations from everybody in the United States. We do a superb job on that.

EFFECTS OF NURSING HOME PROGRAM

Mr. OSTERTAG. As your nursing home program comes into being, what relationship will that have to your hospital bed picture?

Mr. GLEASON. This is going to free hospital beds because for each hospital bed that we have, because of the nature of the illness, et cetera, we can generally turn that bed over six or seven times a year.

A nursing home patient is going to be frozen in a bed until the day he dies, in all probability. This is why I wanted to make clear this question with the chairman earlier.

Mr. EVINS. Is it planned to convert some of your present veterans' hospitals into nursing homes, say in remote sections, or do you contemplate building new facilities?

Mr. GLEASON. The directive from the President says that we will utilize present buildings. We always want to have the nursing home group located close to one of our own hospitals.

Mrs. EVINS. You are going to operate hospitals and nursing homes jointly together?

Mr. GLEASON. Yes, sir; it will be much like our domiciliary program right now, where we have the domiciliary located adjacent to the hospital.

Mr. OSTERTAG. I want to supplement Mr. Evins' question. He confined his question to conversion from hospital facilities to nursing home facilities, but I would like to ask this as a supplement. I would like to know whether or not the domiciliary facilities will be converted.

Mr. GLEASON. Some may be. We are in the midst of a study right now. When we come up with the supplemental, we will have all the answers for you on this, exactly where and how.

Mr. EVINS. There would be many of your nursing home facilities that will, of necessity, have to be new, it would seem to me, under many State laws.

Mr. GLEASON. No, sir. May I interrupt a moment? State laws are not applicable to us.

Mr. EVINS. The State laws that say nursing homes cannot be on second and third floors for older people on account of fire hazards, that they must be on the ground floor only—are you going to have them in the loft or on the third floor?

Mr. GLEASON. Not if we can avoid it, but State laws are not applicable to us.

Mr. EVINS. I understand, but you generally try to follow the pattern of those State laws for safety, do you not?

Mr. GLEASON. We try to follow a pattern and a standard that we decide ourselves. I am sure the Department of Medicine and Surgery will use all due caution.

Mr. EVINS. I am a great champion of the veterans' hospital program as against State-operated facilities, but it would seem to me that since your hospitals are several stories in some situations, if you are going to convert to nursing homes, and it is the general pattern all over to have nursing homes on ground level, this would involve substantial construction changes.

Mr. GLEASON. We recognize that, which is why our appropriation supplemental will probably be in the nature of $5 to $6 million.

Mr. OSTERTAG. If I may, I would like to associate this discussion that you have just had with a point that I wanted to make in order to keep it together.

That is in regard to the nursing home study and your program. Without a question or doubt, it should have a measurable bearing on your overall problem of hospitalization and the care of veterans. If I am any judge, I believe it is something that is sorely needed and something that should have been instituted long before now. I think the general attitude and feeling in the Congress of the United States is very much in favor of it. I believe you are aware of that.

Mr. GLEASON. Yes, sir.

STATUS OF NURSING HOME PROGRAM

Mr. OSTERTAG. In that connection, you indicate that a supplemental request will be made for fiscal year 1964 to activate some 2,000 nursing home beds. I take it if that is your plan, you are ready to go.

Mr. GLEASON. Almost ready, Mr. Ostertag. As I mentioned to you, sir, we will have the supplemental available in about 3 to 4 weeks, at which time we will be back and we will have the full plan for you.

Mr. OSTERTAG. The point I am getting at is this. What is the need for including funds in the fiscal 1964 budget and appropriations rather than in the 1965 budget if you are not ready to go and use this money immediately?

Mr. GLEASON. We will have to make physical changes in the hospitals that we have now—the buildings. This is going to take time. You just do not go out and build a house or go out and tear down rooms and put them back together in a week or two. From the time we present the supplemental to you gentlemen and receive the authorization from the Congress, it is going to take us a few months to get these changes into effect, the construction and material changes.

Mr. MONK. We are only talking of a supplemental for 1964 for construction to renovate and equip the existing space to make it satisfactory for the nursing homes.

Mr. OSTERTAG. Does that not indicate you are ready to go?

Mr. GLEASON. We will be ready to go.

Mr. MONK. As soon as we get the space fixed.

Mr. OSTERTAG. If you had the money today——

Mr. GLEASON. If we had the money today, it would be about 3 months before this renovation work could be completed and we would be ready to go.

Mr. OSTERTAG. If you were required to await appropriation of funds for fiscal 1965, it would delay your program by 6 months or more?

Mr. GLEASON. As long as it takes the Congress to appropriate the moneys for us for 1965, this is true.

Mr. OSTERTAG. What I am trying to get at is this. What is the basic reason for including it in a supplemental for 1964 rather than in the regular budget for 1965?

Mr. GLEASON. Just so we can get the money now and get this renovation work completed in order to get it started just as fast as we can.

Mr. EVINS. When you get the funds and the nursing home program is underway and the room is available and the beds available, then you will move some veterans from the rolls under your average daily patient load over into nursing homes, and they will not be included within your limitation of veterans in the hospital program?

Mr. GLEASON. They will be a part of the total veteran load.

Mr. EVINS. They will still be included?

Mr. GLEASON. Yes, sir; in the overall load.

EFFECTS OF NURSING HOME PROGRAM

Mr. OSTERTAG. Will that have any effect on your average patient load in 1965? I am talking about the nursing home program.

Mr. GLEASON. It all depends on how soon the program gets into operation.

Mr. THOMAS. A half-bed reduction or 50-percent increase, figure it either way, a half-bed reduced under your limitation or 50-percent increase in the occupancy of that bed. It will not miss it far.

Mr. GLEASON. Not 50-percent occupancy.

Mr. OSTERTAG. The patients or the veterans who are placed in these nursing homes will primarily be transferred from your regular hospitals rather than domiciliary care?

Mr. GLEASON. They may well be transferred from domiciliary. It could happen that a domiciliary member might well have a stroke and not be ambulatory, cannot care for himself. Of course, he would come through the hospital into the nursing home. But it could well be that he would start out as a domiciliary member.

Mr. THOMAS. May I interrupt? The people you are going to put in your nursing homes are your more or less bedridden patients.

Mr. GLEASON. That is right.

Mr. THOMAS. How long has he been in that bed before you move him out?

Mr. GLEASON. He might have been there for years.

Mr. THOMAS. If he has been in there 6 months, do you not think you could put six patients in where you had one patient? One patient every 30 days?

Mr. GLEASON. This could be true.

Mr. OSTERTAG. Does this mean a further phaseout of domiciliary facilities?

Mr. GLEASON. No, sir.

Mr. EVINS. Is that 125,000 limitation done by statute?

Mr. GLEASON. No; there is no statute.

Mr. EVINS. We passed the nursing home bill.

Mr. DRIVER. That is not involved here.

Mr. GLEASON. That has not become law yet.

Mr. EVINS. I am sorry, I had the impression it had become law, but I do recognize there is another body to be considered.

Mr. OSTERTAG. Have all your plans been crystallized?

Mr. GLEASON. It is planned and crystallized sufficiently so that in 3 or 4 weeks we should be able to answer your questions.

EFFECT OF NURSING HOMES ON PATIENT LOAD

Mr. OSTERTAG. In further reference to this nursing home study and the plan and program, is it fair to say that once it moves into high gear, that is, becomes operative, that it will substantially relieve your hospital bed load?

Mr. GLEASON. Instead of relieving it, I think it will increase it.

Mr. OSTERTAG. It will what?

Mr. GLEASON. Increase it.

Mr. OSTERTAG. Increase the requirements for hospital beds?

Mr. GLEASON. The availability of beds.

Mr. OSTERTAG. In what way? How would it?

Mr. GLEASON. We already know, as I mentioned to you, that we get a turnover of six or seven patients per bed per year. If 2,000 of these are frozen, that means we do not have that same turnover.

Mr. OSTERTAG. There is no question but what the nursing home facilities will relieve your hospital bed facilities.

Mr. GLEASON. In this regard, yes. We do not need as many nurses and doctors to take care of the nursing home patients as we do those who are under acute care. The staffing ratio will not be as great.

Mr. OSTERTAG. I understand that. I am talking about loads and the average number of veterans to be cared for in hospitals. You point out in your statement that there will be an increase of from 720,000 to

730,000 in the total number of veterans that will be cared for in hospitals during this next year.

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. That is only an increase of 10,000.

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. The point remains, that by virtue of nursing home care, a number of veterans who are long-term patients will be removed from these hospitals and, therefore, making more beds available. Despite the fact that you will have an increase in your average total number of patients throughout the year, the relief that will be afforded by virtue of the nursing home care ought to substantially improve the picture.

Mr. GLEASON. This is true, Mr. Ostertag. We project an increase in fiscal year 1965, for example, from 720,000 to 730,000, an increase of 10,000. We can do better than that with additional moneys.

AMOUNTS FOR COMPENSATION AND PENSIONS

Mr. EVINS. Referring to compensation and pensions, we note you are requesting nearly $4 billion, an increase of $33 million. At the same time you are asking for $2,121 million in compensation payments, which is a decrease of $4.5 million. We are to gather from this that as veterans grow older and there are more applications for pensions, your boards are determining they are eligible under law to be added to the rolls and that those veterans with disability compensation payments are decreasing in number and certainly not a substantial number are being added to the compensation rolls?

Mr. GLEASON. This is substantially right.

Mr. EVINS. This is the explanation?

Mr. GLEASON. The compensation is paid only to service-connected disabled. Without any new wars, this will continue to decline as deaths occur.

VETERANS BENEFITS PROGRAMS

Mr. EVINS. It is an interesting observation. Reverting again to the benefits program, to which I referred earlier, I think it is on page 5, we note that the veterans' benefits are down by more than $5 million.

Mr. GLEASON. That is the operating expense.

Mr. EVINS. You are to be commended for reductions and consolidations in operating expenses. I had the figures earlier——

Mr. MONK. Down $21 million, benefits, page 11.

Mr. EVINS. I think the earlier figure was down——

Mr. GLEASON. Five million dollars.

Mr. EVINS. A substantial amount. Five million dollars is the total reduction in veterans' benefits program?

Mr. GLEASON. General operating expense.

Mr. EVINS. What other reductions and amounts?

Mr. GLEASON. Readjustment benefits. That is page 11. That is down about $27 million.

Mr. EVINS. I just wanted the total amount of veterans' benefits reductions planned for next year. Can you give us that?

Mr. BRICKFIELD. Page 7 to 3 in the budget book.

Mr. EVINS. We have another table at 3.1. How about that one?

Mr. THOMAS. It is a good one. They are all good.

Mr. EVINS. We will get to these tables and the overall amount. I want to refer specifically to the rehabilitation or education and training program. I think in your earlier statements you indicated this law was expiring.

Mr. GLEASON. Readjustment benefits will be down $27,400,000 total.

Mr. EVINS. That is the figure I wanted. That is down.

Mr. GLEASON. Yes, sir; our veterans' insurance and indemnities is down $16,500,000.

VOCATIONAL REHABILITATION PROGRAM

Mr. EVINS. Which part of your rehabilitation program is expiring by law?

Mr. GLEASON. The readjustment benefits.

Mr. EVINS. These are the men being readjusted just after return from service?

Mr. GLEASON. Korean veterans.

Mr. EVINS. Does this exhaust all your training program or substantially all for the Korean veterans?

Mr. GLEASON. Yes, sir; with the exception of those who are disabled.

Mr. EVINS. You refer to Public Law 87–815, approved October 1962 which extended vocational and rehabilitation benefits to peacetime veterans.

Mr. GLEASON. Yes, sir; these are people, for example, over in Vietnam that might be injured. They get the full wartime rates.

Mr. EVINS. The program is expiring and Congress enacts a law for rehabilitation of peacetime veterans.

Mr. GLEASON. Of course, the nonservice have had 10 years since the Korean war to do this, Mr. Evins. Those that are in Vietnam and other hotspots throughout the world have not had this opportunity.

Mr. EVINS. They certainly are worthy and deserving, but overall is the rehabilitation and training program for all groups of veterans declining?

Mr. GLEASON. Yes, sir.

Mr. EVINS. It is declining even with this new law?

Mr. GLEASON. Yes, sir.

Mr. EVINS. I alluded earlier to the fact that we have passed special laws for skills and grade schools and various types of training because of unemployment and lack of job opportunities. Does this mean that our veterans will be eligible for these other programs?

Mr. GLEASON. Yes, sir; they would be eligible for it but under other acts of Congress.

Mr. EVINS. Mr. Shipley?

Mr. SHIPLEY. I have no general questions, but we will have a chance to go into this nursing home under the supplemental?

Mr. EVINS. Yes, sir.

Mr. THOMAS. Mr. Ostertag.

Mr. OSTERTAG. First of all, Mr. Administrator, I want to commend you and the Veterans' Administration on the excellent job you are doing in the administration of veterans' affairs and also commend you, on the fine presentation to the committee today.

I realize, as we all must, that in dealing with this complex problem of administering veterans' affairs we both are confronted with changing conditions, changing times, and changing circumstances. It is evident that the Veterans Administration has been realistic to these changes and has moved with them in proper perspective, all of which is to the good.

It might be well if we had a little clearer picture of what is bringing about these changes. For example, you have indicated the need of a program for automation, which is part and parcel of an efficient and economic management.

There have been changes in the total number of veterans over the years and what it might look like in the future with regard to hospital care, what it looks like with regard to the total number of veterans in America who are going to receive benefits, assuming there is no major change in laws and requirements.

When you get into the insurance program, I assume that remains pretty much stationary, but take your loan guarantee fund and your direct loans. We have problems and this is a serious situation. Where is it going?

I would like to ask, first of all, this general question. Recognizing, as you indicated in your statement, that veterans are growing older each day and veterans of certain wars are expiring, but, on the other hand, there are more coming into the picture requiring medical care or other benefits. What is the general picture as you see it?

Mr. GLEASON. As you know, because of deaths the veteran population can only go down unless we have another war. There are no new veterans being added to the rolls since Korea except those service connected in some of these hotspots throughout the world and those who have remained in service since World War II and Korea and are now retiring from the service.

When it comes to hospital care and the pension rolls, this I can only see as going up, because as the American veteran becomes older, he is going to become ill more often and more seriously and is going to require medical attention more than he has to date. Likewise, pension rolls will continue to go up. Compensation rolls will be going down because of the deaths of the service connected.

Mr. OSTERTAG. In other words, the trend is, there will be an increase in pensions but a decrease in compensation?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Unless unforeseen situations develop.

Mr. GLEASON. Which we all hope will never occur.

Mr. OSTERTAG. In this overall picture of Federal Government responsibility, for some years past your annual expenditures have hovered in the neighborhood of $5 to $6 billion. Would it be your judgment that that is a pretty stable figure over a period of years to come?

Mr. GLEASON. I think this will be true, Mr. Ostertag, that for the next few years it will hover within the same $5 to $6 billion. As certain of our programs phase out, others—for example, medical care

and pensions—will increase. So that I think temporarily they will sort of counterbalance one another and that the figures will remain in this general area.

Mr. JONAS. Would the gentleman yield before leaving that point?

Mr. OSTERTAG. Surely.

VETERAN POPULATION TRENDS

Mr. JONAS. I do not quite understand the table on page 4 in this red book showing trends. In the last column to the right, after listing number of veterans in World War II, Korean conflict, World War I, you have a column saying "Other." I assume that means Spanish-American War veterans and Indian War veterans and Civil War veterans.

Mr. GLEASON. And peacetime veterans.

Mr. JONAS. Instead of going down, the trend is back up since 1959.

Mr. GLEASON. This is the peacetime veteran that is going up.

Mr. JONAS. It started out with 200,000 back in 1946——

Mr. GLEASON. That is right.

Mr. JONAS (continuing). And came gradually down to 1957 to 129,000. Now it starts back up and is up to 156,000.

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Is that peacetime veterans?

Mr. DRIVER. Yes; and Korean. It came down to 1951.

Mr. JONAS. You have Koreans in another column.

Mr. DRIVER. I was looking at the total.

Mr. JONAS. I am looking at the other.

Mr. DRIVER. Mostly peacetime veterans.

Mr. GLEASON. These are peacetime veterans that have a service-connected disability.

Mr. JONAS. That is number of veterans in civil life.

Mr. DRIVER. These are men drafted after 1955 and have come out of service with a service-connected disability.

Mr. JONAS. We have been drafting since 1946. Why would the number go down gradually to 1957 and then start back up?

Mr. DRIVER. More men coming out with peacetime service.

Mr. JONAS. Why more coming out in 1961, 1962, 1963 than in 1950? We were drafting in the fifties probably more than we are now.

Mr. GLEASON. You were drafting for the Korean war.

Mr. DRIVER. They are listed under Korean.

Mr. JONAS. Korean war ended in 1953.

Mr. DRIVER. 1955.

Mr. JONAS. 1955; you kept on going down; 135,000 in 1955. Only 129,000 in 1956 and 1957. Then you jump up to 132,000 in 1958 and go on up to 156,000.

Mr. DRIVER. The men that are listed in 1956 and 1957 did not go in in that year; they went in in previous years, started to come out then. The increase shown in those years would be shown under the Korean column.

If you look at the total line, you can see it followed the war. It went down until 1951, when the Korean war came along, then it starts back up again. It stays that way until 1959 and then starts down a little.

Mr. JONAS. Your first column, "All veterans," has a different trend.

Mr. DRIVER. Yes, sir.

Mr. JONAS. It keeps coming down, but this column starts back up.

Mr. DRIVER. That is the big influence of the World War II column and World War I column coming down and offsetting the other two, dying off.

Mr. JONAS. It is very unclear to me.

PEACETIME VETERANS' BENEFITS

Mr. OSTERTAG. Perhaps it might be well if we had a clearer picture of our responsibilities by way of care and benefits and other services rendered by the Veterans Administration and our Government to a peacetime veteran.

Mr. GLEASON. We have no obligation to a non-service-connected peacetime veteran at all. We only take care of war veterans, except a person who received a service-incurred disability during peacetime.

Mr. OSTERTAG. That is a responsibility?

Mr. GLEASON. A service-connected peacetime veteran becomes a charge of the Veterans Administration. Otherwise peacetime veterans are not handled by us at all. The only thing he will get from the Veterans Administration at any time is a flag when he dies.

Mr. EVINS. What about training?

Mr. GLEASON. No, sir.

Mr. OSTERTAG. If a serviceman serving today is released from the service but he incurred a disability during the time he served, he would be eligible for compensation if it is established as service connected?

Mr. GLEASON. That is correct.

Mr. OSTERTAG. When it comes to a pension, when it comes to hospitalization——

Mr. GLEASON. No, sir.

Mr. OSTERTAG. In other words, if he is released without a disability, would he then subsequently be eligible for veterans' hospital care?

Mr. GLEASON. No, sir.

Mr. OSTERTAG. I think we ought to make that clear, that he is only eligible for compensation and hospital care if he has incurred a service-connected disability.

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. If he came out of the service without a service-connected disability, he would not be entitled to any of these benefits?

Mr. GLEASON. No, sir. The only thing he would be entitled to is a flag when he dies.

Mr. JONAS. Under existing law.

Mr. GLEASON. Yes.

Mr. OSTERTAG. That is a good point.

LOAN PROGRAM SITUATION

Where are we going in this whole question of loans? What is the picture today?

Mr. GLEASON. We think we are going in the right direction. We have certainly sold more properties than we have taken in during the

last 8 to 9 months. We can see where we are going to eventually get out all right. This may take us 6 or 7 years at the present rate.

OVERALL EMPLOYMENT LEVEL

Mr. OSTERTAG. Mr. Administrator, you referred to certain programs with regard to automatic data processing and other activities of that kind, all of which is desirable and necessary in view of your tremendous load. What relationship has all this had to your total employment level? Is your personnel leveling off, or going up? I am talking about across the board.

Mr. GLEASON. It is going down everywhere except in medical care, where we want to increase it for a better staffing ratio. I think we are asking for some 47 or 48 more in data processing.

Other than that, as you will recall, in the Department of Veterans' Benefits it is a 589 decrease. I think our administrative overhead is certainly decreasing, Mr. Ostertag.

Mr. OSTERTAG. Your general operating expenses are decreasing.

Mr. GLEASON. This is due to decreased employment.

Mr. OSTERTAG. The medical administration has increased primarily due to the pay increase?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Your medical and research area has increased. Your medical care has increased in cost. Compensation and pensions have increased. Readjustment benefits is down.

In connection with this whole picture of personnel, is attrition applicable?

In other words, are these people either transferred or are they automatically out or do you just wait until they leave the service and not fill the vacancy?

Mr. GLEASON. We are trying to absorb them by attrition.

Mr. OSTERTAG. That is the policy?

Mr. GLEASON. Yes, sir. I do not like to give RIF notices if it is humanly possible to avoid them. I think we can absorb these people and put them into other assignments in the Veterans' Administration as vacancies occur. The overall reduction will be there. Unemployment is high enough without our adding to it.

Mr. OSTERTAG. I assume as we go into your justifications we will have the opportunity of discussing the fine points of many of these programs and services. But again I want to repeat that you have presented us with a very clear and a very fine and comprehensive statement.

Mr. GLEASON. Thank you, sir.

Mr. THOMAS. Mr. Jonas.

AUTOMATION SAVINGS

Mr. JONAS. I do not find any information under the data management tab to point up where these savings in personnel have occurred. You spent $10 million on this system already and you are planning to spent $11 million in 1964, $10.7 million in 1965, which will be about a $30 million deal over a 3-year period. Will you have somebody prepared when we get to that subject to pinpoint where savings have occurred?

Mr. GLEASON. Yes, sir; we will.

Mr. JONAS. For example, Mr. Gorman told us last year there were 172 people handling these index cards out at the Munitions Building. How many have you still got out there doing that?

Mr. GORMAN. A total of 174 in the Index Section handling index cards. You are talking about automating our index?

Mr. JONAS. My recollection is you had around 185 out there last year handling the locater and index cards.

Mr. GORMAN. Yes; as well as correspondence——

Mr. JONAS. How many do you have still doing that?

Mr. GORMAN. About the same. In the identification section alone we have 67, approximately the same.

Mr. JONAS. You have not made any savings by use of your data processing?

Mr. GORMAN. No, sir.

Mr. GLEASON. This is one of the things we propose to do. We will be happy to go into that when we come to that section.

Mr. JONAS. I thought you had everything automated.

Mr. GLEASON. This will take years to automate.

Mr. JONAS. What are you doing with your machines at Hines?

Mr. GLEASON. Right now we are handling compensation and pension payments. This is the primary thing.

Mr. JONAS. Would that not have eliminated those 29 million cards?

Mr. GLEASON. No, sir; it has nothing to do with it.

Mr. JONAS. What are those index cards for?

Mr. GLEASON. These are for the 22.5 million veterans that we are responsible for.

Mr. DRIVER. They tell where all his records are located. They have nothing to do with paying him, sir.

Mr. JONAS You use the automated equipment only for pay?

Mr. DRIVER. Yes, sir; compensation and pension. Also all premium billings and insurance dividends.

Mr. GLEASON. One thing we are going into now is putting our entire payroll for 178,000 people on automatic data processing equipment.

Mr. JONAS. What are you going to do with all those cards?

Mr. GLEASON. We are going to keep them until we get around to putting them on ADP.

Mr. JONAS. Are we not getting ready to tear down the building in connection with your move?

Mr. GLEASON. We will move that activity probably into the Silver Spring section.

Mr. JONAS. I would like to have something in the record when we get to that section that will show in black and white and figures what money has been saved.

SAVINGS IN PREPAYMENT OF INSURANCE DIVIDEND

Mr. GLEASON. I will get to it, I have it here. The quickest one I can think of was on the prepayment of our insurance dividend this year. Three years ago, when we paid this, it cost us about $1,460,000. This year——

Mr. JONAS. Wait a minute. It cost you how much?

Mr. GLEASON. It cost us $1,460,000 administratively to pay the dividend.

Mr. JONAS. What were the costs?

Mr. GLEASON. You have to have people.

Mr. JONAS. You already had them on the rolls. You did not hire anybody else.

Mr. GLEASON. Like everything else, we have to cost account that all the way through.

Mr. JONAS. It did not actually cost that. If they had not been doing this, they would have been doing something else.

Mr. GLEASON. We would not have had so many people. You can look at the Insurance Department. Here we dropped about 600 people out of this department in the last 3 years. We have been able to eliminate how many altogether, would you say?

Mr. BUDD. About 1,200.

Mr. GLEASON. About 1,200 people we have been able to eliminate in the last 5 years, which is a tremendous savings, I would say. You cannot say if they were not doing that, they would be doing something else. We do not work it that way.

Mr. JONAS. You may not work it that way, but I do. I do not see how you can honestly claim you saved a million dollars.

Mr. GLEASON. Would you say honestly that we saved the salaries of these 1,200 people that we eliminated?

Mr. JONAS. You did not eliminate them to pay that dividend. You said it cost you a million dollars.

Mr. GLEASON. This is out of the Department of Insurance. There is a certain percentage of these people that were doing the dividend work. They did it all the year long.

Mr. DRIVER. It was not necessarily speeded up.

Mr. THOMAS. Is this an extra activity that, without this ADP equipment, you would have had to hire more people in order to get the job done?

Mr. GLEASON. Yes, sir; we would have had to hire more and we would not have been able to eliminate so many.

Mr. JONAS. Where is the savings?

Mr. GLEASON. Do you not think 1,200 people is a savings?

Mr. JONAS. You did not discharge 1,200 people as a result of that operation.

Mr. GLEASON. Not that one, but this is a part of the whole.

Mr. DRIVER. As a result of automating the insurance accounts—which includes paying dividends—we eliminated these people.

Mr. JONAS. You did that over 3 years, not at one time.

Mr. DRIVER. We do not say we did.

Mr. GLEASON. I would not hope that we could. This would be almost impossible to do all at once.

Mr. JONAS. I am not recommending that you do it all at once. I am asking you to tell me how you justify saying you saved over a million dollars on that one dividend check.

Mr. GLEASON. As a matter of fact, we saved almost a million and a half.

Mr. JONAS. I am not convinced that you saved that much money.

Mr. GLEASON. If we were not automated this last year in January, it would have cost us about $1,460,000. As it was, because we were automated, it cost us only $26,000.

INSURANCE PROGRAM EMPLOYMENT

Mr. THOMAS. At this point in the record insert your personnel load for the last 5 years in insurance. I think over a period of 5 years your problem becomes much more clear. You have reduced your employees and all the time your workload perhaps has increased a little bit because you have had changes in some of your laws, and a change is as much work as putting a new law on the books, or more. You have to figure all your records. Do you have those figures?

Mr. MONK. We have those employment figures up to the time we combined Insurance with DVB in 1963. The table on pages 2–4 gives the total trend in personnel.

Mr. THOMAS. Let us look at that. That is the long one?

Mr. MONK. Yes, sir.

Mr. THOMAS. I think you set it out under "Insurance."

Mr. BRICKFIELD. The second line shows the Department of Insurance, fiscal years 1953 to 1962.

Mr. THOMAS. Department of Insurance.

Mr. GLEASON. It went from 11,103 in 1953 to about 3,400 in 1962. It is down to about 1,259 now.

(The employment figures supplied follow:)

Department of Insurance personnel

1959	4,301
1960	4,122
1961	3,814
1962	3,439
1963	[1] 3,001

[1] Department of Insurance consolidated with DVB in 1963. Employees transferred to:

DVB, insurance service (as shown in fiscal year 1965 budget)	1,852
DVB, central office	165
DVB, office services	637
DDM, central office	100
DDM, field	247

GAO REPORT ON PROPERTY MANAGEMENT ACTIVITIES

Mr. JONAS. The GAO has been very critical of what they charge are excessive costs in your broker management field.

Mr. GLEASON. Yes, sir.

Mr. JONAS. Have you had access to their report?

Mr. GLEASON. Yes, sir. As a matter of fact, Mr. Jonas, I might say that before they even released it, all the necessary corrections were made.

Mr. JONAS. What do you mean by necessary corrections?

Mr. GLEASON. The corrections that were necessary. They found certain things wrong. GAO has about 30 men assigned to our office full time, day in and day out. We also have our own investigating staff, and when we feel the need of an investigation, we go out and make it. I can assure you that before this was ever put to print, all of the necessary corrections that were indicated were made.

Mr. JONAS. Why were they not made beforehand?

Mr. GLEASON. Because we did not know about it.

Mr. JONAS. You mean you did not know that in the State of Michigan, for example, the statutes provide for a 12-month redemption period and your brokers could not even enter the houses, yet you paid them $120,000?

Mr. GLEASON. Not until we were advised.

Mr. JONAS. What is the matter with your loan guarantee officer?

Mr. BRICKFIELD. We knew this and, as the Administrator points out, we corrected it before the report was made. If you look in the report, you will find out it has been corrected.

Mr. JONAS. After you paid $120,000 in 1 year in brokers' fees in Michigan that they did not earn.

Mr. BRICKFIELD. They did earn them. It is true Michigan has a 12-month redemption law. Some houses we cannot get into for 12 months, but other houses are vacated in the meantime, so that we do get them before the 12 months elapses, and it is in these houses where we have management brokers managing the properties and we pay them these fees.

Mr. JONAS. You say this report, then, is based on your own investigation?

Mr. GLEASON. They are consistent; yes, sir.

Mr. JONAS. You spent $800,000 that could have been saved if you had made your inspection earlier?

Mr. GLEASON. This is probably true.

Mr. JONAS. Is not that sort of careless management on the part of somebody?

Mr. BRICKFIELD. Mr. Jonas, we had a tremendous increase in the number of foreclosed properties from 1960 to 1962. Our emphasis then was on selling houses. If we could sell a house as soon as we got it, we saved money. We saved property management expenses and other expenses.

Our emphasis at that time was in selling, rather than in property management. As I say, we had a tremendous increase, and there was a lag until we caught up.

Mr. JONAS. All that increase did not justify having some of your brokers mow the lawns on these houses three or four times a month when it was not necessary, did it?

Mr. BRICKFIELD. I do not think there was ever a charge that any broker mowed the lawn three or four times more than was necessary.

Mr. JONAS. There is in this report, and the Administrator says it is based on your own investigation. I would assume it is correct.

Mr. BRICKFIELD. No, sir; not three or four times more than necessary.

Mr. JONAS. You described everything here, saying it came out of your own office. Do you want me to read what they say about mowing the lawn? [Reading:]

Our inspection of properties held by the Detroit regional office showed that although the lawns were generally in only poor to fair condition, they were being mowed with unnecessary frequency. Three of the management brokers whose activities we reviewed were handling the lawns of 490 properties, mowed an average of three times a month, at a cost of $5 a mowing.

Is that right?

Mr. BRICKFIELD. That is right, sir.

Mr. JONAS. Who is responsible for that?

Mr. BRICKFIELD. This results or reduces itself to a question of opinion. How often does the lawn need to be mowed? That is, in Michigan. Once a week or once every 2 weeks?

Mr. JONAS. The Administrator says this is correct. It is based on his own figures.

Mr. BRICKFIELD. No, I think what the GAO was saying was: We were cutting the grass too often and were not sending people out to the properties to see if the lawns were in fact mowed.

Mr. JONAS. [Reading:]

> We brought this to the attention of VA officials at both field and central office. As a result, the Detroit regional manager has subsequently reported that controls have been established under which lawn mowing is limited to not more than once every 3 weeks.

My question is: Why did you not discover that earlier? What is the matter with the people in the Detroit office that they could not have discovered that without GAO investigating?

Mr. BRICKFIELD. As the Administrator pointed out, we did get on to the situation before the GAO got into it, Mr. Jonas. As you also know, in Detroit we had a tremendous increase in number of properties. I think it went from something like 1,000 to 5,000 in a matter of months. In that short time we made contracts with property management brokers, and they agreed to mow the lawns for a certain fee per month. This fee included, I think, mowing at the rate of three or four times a month.

As we got further along into the program, experience indicated to us that they did not need to be mowed three or four times a month. Simultaneously with our own investigation, the GAO investigation disclosed we could get by with having it done only once every 3 weeks.

Mr. JONAS. Regardless of who discovered it, I am glad that it was discovered.

Mr. THOMAS. What is the loss per unit on those properties in Detroit and how long does it take them?

Mr. JONAS. That is not reflected in this.

Mr. THOMAS. Maybe he will give it to you.

ACQUIRED PROPERTIES IN MICHIGAN

Mr. JONAS. How many properties do you have in Detroit?

Mr. BRICKFIELD. We have somewhere in the neighborhood of 5,200 properties in the State of Michigan.

Mr. JONAS. In Detroit?

Mr. BRICKFIELD. All of Michigan.

Mr. JONAS. How long have they been held?

Mr. BRICKFIELD. I do not have it broken down for the vicinity of Detroit, but I have properties on hand as of December 31 in Michigan, where our regional office is located. In Detroit, 5,263. On hand less than 6 months, 973; between 6 months and a year on hand, 720; over a year, 644; over 18 months, 619; over 24 months, 727.

Mr. JONAS. How many have you disposed of during the last 18 months?

Mr. BRICKFIELD. We have a good record in Michigan.

Mr. JONAS. We will judge whether it is good. You tell us how many.

Mr. BRICKFIELD. We sold more than we have acquired. I will have it for you in a moment.

Mr. THOMAS. A 24-month record of 725 is not too good.

Mr. BRICKFIELD. Even there, Mr. Thomas, where we cannot sell, we rent. So that we recapture at least part of the cost.

Mr. THOMAS. Do these figures mean these are all rented?

Mr. BRICKFIELD. No, sir.

Mr. DERVAN. In December we acquired a total of 129 properties and sold 206. I do not have the cumulative total but I do know that they have regularly been disposing of more properties than we have acquired.

Mr. JONAS. What was the sales price the 206 brought?

Mr. DERVAN. I would have to break that down according to regional offices.

NATIONAL PICTURE ON PROPERTY ACQUISITIONS AND SALES

I can tell you this: Our experience nationally during fiscal year 1963 has been that we have sustained an average loss per property sold of about $1,326. That is the national figure, sir. Actually, the sales prices of our properties exceed the book value of the properties sold.

The expenses which we incur for the payment of real estate taxes, for repairs of the property, for maintenance and for the sales brokers' commissions exceeded the gross profit on the sales, so that in the net we sustained a loss of about $1,326 per property in 1963.

Mr. JONAS. That is the average, but what is the top figure of losses and the low figure?

Mr. DERVAN. I could not indicate that, sir, except that is the average.

Mr. JONAS. Can you pinpoint where most of your losses occur? Are they in metropolitan areas or rural communities?

Mr. DERVAN. I can indicate this: About 84 percent of the properties which we now have on hand are concentrated in 12 States throughout the United States. These are: Michigan, No. 1; Texas, Illinois, Florida, Kansas, California, Ohio, Pennsylvania, Louisiana, Alabama, Washington, and New Jersey.

Mr. OSTERTAG. Mr. Jonas has raised a point which I think might be interesting comparing the urban and rural areas.

Mr. DERVAN. I think it is quite true, sir, that the concentration of properties is in the metropolitan centers. For example, Wichita, Kans., is due to a change in the airplane employment situation there; Detroit, that is due largely to the automation of the automobile industry, notwithstanding, for example, that the total cars produced in the last 2 years have been records.

The total number of employees involved in the production is less than it was a number of years ago.

We also have problems that arise incident to the closing of military bases.

FORECLOSURE RATES—DIRECT LOANS AND LOAN GUARANTEE

Mr. THOMAS. Did you give Mr. Jonas an answer to his question? What is the rate of foreclosure in urban areas as compared to the country?

Mr. DERVAN. The answer to that would be by comparing the foreclosures on the guaranteed loan program as against the direct loan program.

On the guaranteed loan program, it is about 2.1 percent of the total number of loans made since the beginning of the program.

In the direct loan program, it is about 1.6 percent.

Mr. THOMAS. More than 50 percent.

Mr. EVINS. This is a little unfair comparison because your direct loan program came into the picture later. The number is less than the overall number in the guaranteed loan program in the cities?

Mr. GLEASON. We make a profit on the direct loan programs.

Mr. JONAS. Can you give those figures in units instead of percentages?

Mr. DERVAN. Yes, sir.

Mr. JONAS. What is your inventory of houses now in the guaranteed loan program?

Mr. DERVAN. We had 21,973 properties on hand in the guaranteed loan program on December 31, 1963.

Since the beginning of the guaranteed loan program, home loans guaranteed by the Veterans' Administration, this has been about $6.1 million. The total number of claims paid which resulted from foreclosures, about 126,000.

Mr. THOMAS. Gentlemen, may I interrupt at this point?

Let us get a little something to eat and get back at 1 o'clock.

AFTERNOON SESSION

Mr. THOMAS. Gentlemen, will the committee please come to order?

Mr. Jonas, you had two or three other questions?

Mr. JONAS. Did we get the information about the foreclosure rate straightened out?

ACQUISITION AND SALES

Mr. JONAS. Why do you not put a table in the record that will show the rate in units acquired in the last few years, by year, for 5 years?

Mr. DERVAN. First of all, sir, I would have to go back to the beginning of the program. I would have to supply it year by year for the record. I can tell you what the total is and what it has been for the last few years.

Mr. JONAS. That would be all right.

(The information supplied follows:)

Property acquisitions, sales, and on hand

Fiscal year	Acquisitions	Sales	On hand
1955	3,091	2,351	2,475
1956	4,207	3,558	3,047
1957	5,615	4,738	3,859
1958	7,708	6,491	4,606
1959	10,812	9,608	5,749
1960	10,965	10,229	6,397
1961	14,601	9,962	10,967
1962	21,165	13,974	18,045
1963	25,243	19,387	23,783
1964 (1st half)	13,536	14,532	22,733
Cumulative through Dec. 31, 1963	129,516	105,844	

Mr. JONAS. You said the situation is improving now with more sales exceeding new acquisitions?

Mr. DERVAN. Yes, sir. With respect to the past 6 months, sir, we have acquired approximately 13,500 properties from July 1 through December 31. In the same time we have sold about 14,500, which would be about 107 percent of our acquisitions. Comparatively speaking, as of the end of December 1963, we had roughly 22,750 properties on hand compared to June 30 of last year when we had 23,780 properties on hand.

Mr. JONAS. When you sell a foreclosed house, do you sell it financed? Is any purchaser, regardless of whether he is a veteran or not, permitted to continue to carry the installments?

Mr. DERVAN. Any qualified purchaser may apply for the purchase of one of the houses which we offer for sale through local sales brokers, sir. We take back from the purchaser a note for the difference between the sales price and his downpayment.

Mr. JONAS. I know; but what about the rate of payment of the note?

Mr. DERVAN. These are amortized mortgages monthly, generally at 5.5 percent interest.

Mr. JONAS. In other words, if a nonveteran buys one of your houses, he can carry it under the original terms?

Mr. DERVAN. No, sir; the original GI mortgage is extinguished in connection with the foreclosure of that mortgage. The holder of the foreclosed mortgage acquires title to the property by bidding on it at the foreclosure sale. Thereafter, he conveys title to the property to the Administrator of Veterans' Affairs. We then list the property for sale with local real estate brokers. When a qualified purchaser is found we take a new mortgage which, in effect, is a conventional mortgage for the difference between the sales price and the downpayment.

Mr. JONAS. I understand that, but what about the terms?

Mr. DERVAN. The terms will vary. The terms may be all the way up to 30 years at 5.5 percent interest, generally speaking.

Mr. JONAS. What do you require in the way of a downpayment?

Mr. DERVAN. We will sell for no downpayment and most of our sales today are on a no downpayment basis.

Mr. JONAS. That probably explains why your rate of sales is so high. It is not hard to sell a house with no downpayment, is it?

Mr. DERVAN. The average downpayment being received is about 3 percent of the sales price. One of the important things to bear in mind in this connection is that the sale of the property being taken over by a private purchaser immediately saves the Government the cost of real estate taxes and expenses such as repairs, maintenance, and so forth. It actually costs about $80 a month to retain one of these properties on our books.

Mr. JONAS. It is better to sell it without a downpayment than to continue to hold it, of course, unless you sell it to a person who is not responsible and he begins to default right off. Then you have trustee fees to foreclose, advertising, and all of the expenses of foreclosure to go through.

Mr. DERVAN. We do have the foreclosure expenses, sir, but our foreclosure experience on these properties that we take back and sell is, roughly, 8 percent for foreclosure.

FORECLOSURE COSTS

Mr. JONAS. What does it cost you to foreclose a $20,000 mortgage?

Mr. DERVAN. It depends on the State. Where we have foreclosure laws which are difficult, time consuming, and expensive, we will sell the property on an installment sale contract rather than on a deed and mortgage basis. In the event of a default on the part of the purchaser, it is relatively simple on an installment sale contract basis to terminate.

Mr. JONAS. Who is the trustee in the deed of trust?

Mr. DERVAN. Generally it would be the loan guarantee officer.

Mr. JONAS. In the State?

Mr. DERVAN. Yes, sir.

Mr. JONAS. For example, North Carolina?

Mr. DERVAN. It would probably be the loan guarantee officer.

Mr. JONAS. You would not pay him a commission?

Mr. DERVAN. No, sir.

Mr. JONAS. The only expense then would be the advertising?

Mr. DERVAN. That is right.

Mr. JONAS. Probably you would have a legal fee involved?

Mr. DERVAN. We hire local attorneys to foreclose for us. There is a foreclosure fee involved in it.

PROPERTY MANAGEMENT ACTIVITIES IN MICHIGAN

Mr. JONAS. Getting back to that Detroit business, and I am not picking on Detroit except just by accident, because I see this Detroit case cited. One of the points made by the GAO report was variance in charges for winterizing houses. As an example, they cited 5 different brokers handling 1,745 properties and their fees ranged from $10 up to $17.50 for winterizing. They ranged from $5 a house up to $15 for dewinterizing.

They say this was corrected and you fixed on a standard fee of $15.

It looks to me like, instead of trying to hit a medium or average, you settled on the top figure.

You are increasing your fee for two brokers? In addition you are reducing on only one?

Mr. BRICKFIELD. We did this, Mr. Jonas, with the concurrence of the General Accounting Office. They agreed with this uniform fee. But it must be remembered that almost overnight we had this tremendous increase of houses on hand, from approximately 1,000 to 5,000. It is true that in the hectic months that followed we entered into various arrangements with different property management brokers but as we got more experience in this, of course, we changed the prices so that we could in time come out with a uniform fee.

Mr. JONAS. It costs you more after you standardized in that instance than what it cost you when you were unstandardized? You went up on the price you were paying for 600 units?

Mr. BRICKFIELD. No; the higher fee consolidates two fees. There were cases where in the beginning we were being inequitable in not paying some property managers a realistic fee. Here, again, we come to the question of judgment of what fee is the proper fee to pay.

Should the grass be cut three times a month, which means every 10 days, or cut every 21 days?

I think it is wise to have the property look sharp at all times. If we are going to make an error in judgment, I would rather make it in a direction where it would sell the property rather than cutting the grass, for example, once every 3 weeks.

Mr. JONAS. What does all that have to do with the question I asked?

Mr. BRICKFIELD. The main point is that it comes down to a question of judgment. When we entered into these arrangements with some brokers, along at the beginning of this expanded program, we were probably getting a better price than what we really should have been paying. In other instances we paid too much. As we went along, we made new arrangements with new brokers and we paid them different prices. After about a year's time things began to settle and jell and then we arrived upon a uniform and proper price.

Mr. JONAS. I have no further questions.

HOME LOANS

Mr. OSTERTAG. On the question of home loans, there were more than 189,000, is that correct?

Mr. BRICKFIELD. Yes, sir.

Mr. OSTERTAG. For homes, farms, and business loans which amounted to $2,730 million guaranteed or insured?

Mr. BRICKFIELD. Yes, sir.

Mr. OSTERTAG. This was an increase over the number guaranteed in fiscal 1962, is that correct?

Mr. BRICKFIELD. Yes, sir.

FORECLOSURE RATE

Mr. OSTERTAG. On the other hand, while your foreclosures have increased by 3,780, or somewhere in the neighborhood of 4,000, nevertheless, you have an increase of some 5,000 over the previous record of sold properties? In other words, your percentage of rate of sales has been higher than in previous years?

Mr. BRICKFIELD. That is right, sir.

Mr. GLEASON. This only started last July, Mr. Ostertag. This trend reversed itself only beginning last July so that the rate of sales are now higher.

Mr. OSTERTAG. If this trend of foreclosures had continued to go up and you ran into a stone wall on your sales, you would really be in trouble?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Are you worried about that?

Mr. BRICKFIELD. No, sir.

Mr. GLEASON. We are not worried but we are concerned.

Mr. BRICKFIELD. We hope that we are over the peak, Mr. Ostertag. Last year our sales jumped about 35 percent and the year before they jumped around 40 percent. This year while there will be a further increase, percentagewise it will be small. We have emphasized an advertising campaign and we have adopted many procedures to help us sell these properties. In the long run, we will save more money if we can sell properties more quickly.

Mr. THOMAS. Any further questions, gentlemen?

If not, let us turn to the budget estimates and go through the budget.

If anybody has any questions at any time, we will yield.

Mr. GLEASON. Yes, sir.

TOTAL VA PERSONNEL COMPENSATION AND BENEFITS

Mr. THOMAS. Gentlemen, this budget has a lot of good information in it and let us put the table on pages 2–1, 2–2, and 2–3 in the record at this point.

(The pages follow:)

Personnel Compensation and Employees Benefits Paid From Appropriated Funds

Fiscal year 1963 actual

	General operating expenses		Medical administration and miscellaneous operating expenses		Medical and prosthetic research		Medical care		Construction of H. & D.F.		Total paid from appropriated funds		Percent of total
	Average employment	Amount	Average employment	Amount	Average employment	Amount	Average employment	Amount	Average employment	Amount	Average employment	Amount	
Personnel compensation:													
Full time	19,382	$125,599,615	1,009	$9,571,755	2,698	$17,219,484	124,984	$703,276,481	299	$2,443,354	148,272	$858,110,689	86.9
Terminal leave: Number of payments	(2,022)	1,273,735	(116)	75,167	(178)	115,613	(9,348)	6,075,844	(31)	24,510	(11,695)	7,564,869	.8
Full time total	19,382	126,873,350	1,009	9,646,922	2,698	17,335,097	124,984	709,352,325	299	2,467,864	148,272	865,675,558	87.7
Part time	6	26,231	1	4,060	101	577,771	4,287	24,451,488	75	651,314	4,571	25,710,864	2.6
Consultants			7	167,206	33	319,883	1,081	10,444,594			1,120	10,931,683	1.1
Overtime and holiday pay		736,348		12,210		59,907		8,176,206		13,323		8,997,994	.9
Night differential		18,198				3,744		6,235,739				6,257,681	.6
Post differential and cost of living allowance		276,462				12,823		343,556				632,841	.1
Extra days' pay													
Total personnel compensation	19,388	127,930,589	1,017	9,830,398	2,832	18,309,225	130,352	759,003,908	374	3,132,501	153,963	918,206,621	93.0
Personnel benefits:													
Federal group life insurance		418,416		31,725		50,995		2,241,012		8,072		2,750,220	.3
Federal health benefits insurance		966,196		55,640		123,628		5,896,323		15,912		7,057,699	.7
Civil service retirement		8,045,456		617,664		1,034,968		45,483,771		146,507		55,328,366	5.6
Awards		212,130		7,325		13,952		682,986		2,850		919,243	.1
Uniform allowance		354				31,804		1,340,520				1,372,678	.1
FICA		53,302		2,138		56,445		364,174		23,843		499,902	.1
Accident compensation								141,000				141,000	
Q.S. & L. allowances, WOC employees						10,547		778,075				788,622	.1
Total personnel benefits		9,695,854		714,492		1,322,339		56,927,861		197,184		68,857,730	7.0
Total personal services	19,388	137,626,443	1,017	10,544,890	2,832	19,631,564	130,352	815,931,769	374	3,329,685	153,963	987,064,351	100.0
Average payroll cost		$7,099		$10,369		$6,932		$6,259		$8,920		$6,412	

Fiscal year 1964 estimate

	General operating expenses		Medical administration and miscellaneous operating expenses		Medical and prosthetic research		Medical care		Construction, Corregidor-Bataan Memorial		Construction of H. & D.F.		Total paid from appropriated funds		Percent of total
	Average employment	Amount	Average employment	Amount	Average employment	Amount	Average employment	Amount	Average employment	Amount	Average employment	Amount	Average employment	Amount	
Personnel compensation:															
Full time	18,388	$126,973,587	1,038	$10,463,470	2,905	$19,596,000	124,829	$738,405,000	1	$6,830	323	$2,749,700	147,484	$898,194,587	86.3
Terminal leave:															
Number of payments	(1,548)	991,291	(131)	83,000	(170)	131,000	(9,452)	6,438,000			(31)	25,000	(11,332)	7,668,291	.7
Full-time total	18,388	127,964,878	1,038	10,546,470	2,905	19,727,000	124,829	744,843,000	1	6,830	323	2,774,700	147,484	905,862,878	87.0
Part time	6	24,000	1	4,000	107	621,000	4,409	25,862,000			75	655,000	4,598	27,166,000	2.6
Consultants			8	215,000	35	303,000	1,097	10,684,000					1,140	11,202,000	1.1
Overtime and holiday pay		443,929		11,000		60,000		8,651,000				13,000		9,178,929	.9
Night differential		19,400				4,000		6,598,000						6,621,400	.6
Post differential and cost of living allowance		304,115				13,000		354,000						671,115	.1
Extra days pay		979,546		80,000		143,000		5,891,000				21,150		7,114,696	.7
Total personnel compensation	18,394	129,735,868	1,047	10,856,470	3,047	20,871,000	130,335	802,883,000	1	6,830	398	3,463,850	153,222	967,817,018	93.0
Personnel benefits:															
Federal group life insurance		580,031		37,000		61,000		2,528,000		30		8,495		3,214,556	.3
Federal health benefits insurance		1,004,448		63,000		142,000		6,382,000		40		17,190		7,608,678	.7
Civil service retirement		8,293,637		679,000		1,188,000		48,113,000		100		174,330		58,448,067	5.6
Awards															
Uniform allowance		389				35,000		1,351,000						1,386,389	.1
FICA		55,191		2,000		62,000		375,000				28,370		522,561	.1
Accident compensation								683,000						683,000	.1
Q.S. & L. allowances, WOC employees						11,000		786,000						797,000	.1
Total personnel benefits		9,933,696		781,000		1,499,000		60,218,000		170		228,385		72,660,251	7.0
Total personal services	18,394	139,669,564	1,047	11,637,470	3,047	22,370,000	130,335	863,101,000	1	7,000	398	3,692,235	153,222	1,040,477,269	100.0
Average payroll cost		$7,593		$11,115		$7,342		$6,622		$7,000		$9,277		$6,793	

Fiscal year 1965 estimate

	General operating expenses		Medical administration and miscellaneous operating expenses		Medical and prosthetic research		Medical care		Construction, Corregidor-Bataan Memorial		Construction of H. & D.F.		Total paid from appropriated funds		Percent of total
	Average employment	Amount	Average employment	Amount	Average employment	Amount	Average employment	Amount	Average employment	Amount	Average employment	Amount	Average employment	Amount	
Personnel compensation:															
Full time	17,770	$126,824,077	1,040	$10,807,000	3,037	$20,755,000	125,699	$755,266,000	2	$10,430	332	$2,903,670	147,880	$916,566,177	86.5
Terminal leave: number of payments	(1,558)	1,014,318	(131)	70,000	(170)	139,000	(9,537)	6,772,000			31	25,000	(11,427)	8,020,318	0.7
Full-time total	17,770	127,838,395	1,040	10,877,000	3,037	20,894,000	125,699	762,038,000	2	10,430	332	2,928,670	147,880	924,586,495	87.3
Parttime	6	24,000	1	4,000	111	649,000	4,532	27,293,000			75	652,500	4,725	28,622,500	2.7
Consultants			8	215,000	39	333,000	1,102	10,692,000					1,149	11,240,000	1.1
Overtime and holiday pay		372,600		11,000		60,000		8,635,000				13,000		9,091,600	0.9
Night differential		27,500				4,000		6,578,000						6,609,500	0.6
Post differential and cost of living allowance		307,300				13,000		364,000						684,300	0.1
Extra days pay		487,968		41,000		78,000		3,074,000		300		11,170		3,692,438	0.3
Total, personnel compensation	17,776	129,057,763	1,049	11,148,000	3,187	22,031,000	131,333	818,674,000	2	10,730	407	3,605,340	153,754	984,526,833	93.0
Personnel benefits:															
Federal group life insurance		573,500		38,000		69,000		2,607,000		50		8,730		3,296,280	.3
Federal Health benefits insurance		1,005,818		64,000		157,000		6,460,000		60		17,670		7,704,548	.7
Civil service retirement		8,249,149		700,000		1,245,000		49,059,000		160		183,690		59,436,999	5.6
Awards															
Uniform allowance		389				39,000		1,369,000						1,408,389	.1
FICA		54,313		2,000		69,000		388,000				28,545		541,858	.1
Accident compensation								1,320,000						1,320,000	.1
Q.S. & L. allowances, WOC employees						12,000		826,000						838,000	.1
Total, personnel benefits		9,883,169		804,000		1,591,000		62,029,000				238,635		74,546,074	7.0
Total personal services	17,776	138,940,932	1,049	11,952,000	3,187	23,662,000	131,333	880,703,000	2	11,000	407	3,843,975	153,754	1,059,072,907	100.0
Average payroll cost		7,816		11,394		7,411		6,706		5,500		9,445		6,888	

SALARY AND OTHER PERSONNEL COSTS, 1958–62

Mr. THOMAS. These tables cover personnel compensation and employees' benefits paid from appropriated funds for fiscal years 1963, 1964, and 1965. I think it would be well if we could have an overall table at this point in the record immediately following the tables just inserted showing the salary amount and the number of employees for each of the 5 years, say beginning with 1958. You have also had a couple of pay increases and you might have a table showing that.

(The table follows:)

	Average employment [1]	Personal services costs	Pay raise costs [2]
Fiscal year:			
1958	156,158	$742,596,487	$28,500,000
1959	153,570	779,761,300	
1960	153,289	852,293,009	
1961	153,361	921,064,685	50,530,000
1962	155,009	941,534,553	

[1] Includes consultants; excludes canteen and supply funds.
[2] Estimated costs of statutory pay increases in year of enactment (cumulative costs in each year not provided by accounting and fiscal records).

SUMMARY OF BUDGETS, 1963–65

Mr. THOMAS. Page 3–1 shows a summary of all VA appropriations, 1963, 1964, and 1965. We will insert this page in the record.

(The page follows:)

Comparative summary of appropriations and appropriation estimates

Appropriation title	Fiscal year 1963 appropriations	Fiscal year 1964			Fiscal year 1965 appropriation estimate	Increase (+) or decrease (−) 1965 over 1964
		Appropriated	Supplementals	Total		
General operating expenses	$161,279,950	$159,750,000		$159,750,000	$156,524,000	−$3,226,000
Medical administration and miscellaneous operating expenses	13,981,950	14,800,000		14,800,000	14,915,000	+115,000
Medical and prosthetic research	30,500,000	33,742,000		33,742,000	36,987,000	+3,245,000
Medical care	1,048,172,300	1,081,186,000	$10,579,000	1,091,765,000	1,115,935,000	+24,170,000
Subtotal	1,253,934,200	1,289,478,000		1,300,057,000	1,324,361,000	+24,304,000
Compensation and pensions	3,874,000,000	3,921,000,000		3,921,000,000	3,963,000,000	+42,000,000
Readjustment benefits	95,800,000	67,000,000		67,000,000	39,600,000	−27,400,000
Veterans' insurance and indemnities [1]	32,000,000	30,200,000		30,200,000	13,700,000	−16,500,000
Grants to the Republic of the Philippines	350,000	310,000		310,000	310,000	
Construction of H. & D.F.	77,000,000	76,796,000	5,000,000	81,796,000	102,000,000	+20,204,000
Construction, Corregidor-Bataan Memorial			1,500,000	1,500,000		−1,500,000
Total appropriation [2]	5,333,084,200	5,384,784,000	17,079,000	5,401,863,000	5,442,971,000	+41,108,000

[1] Excludes permanent indefinite, fiscal year 1963, $682,000; fiscal year 1964, $800,000; fiscal year 1965, $800,000.
[2] Excludes direct loan borrowing authority, fiscal year 1963, $200,000,000; fiscal year 1964, $150,000,000.

GENERAL OPERATING EXPENSES

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	126,856	127,920	127,808
	Positions other than permanent	26	24	24
	Other personnel compensation	1,048	1,791	1,226
	Total personnel compensation	127,930	129,735	129,058
12	Personnel benefits	9,696	9,933	9,883
21	Travel and transportation of persons:			
	Employees	2,313	2,399	2,397
	Beneficiaries	252	315	223
	All other	477	487	482
22	Transportation of things	450	437	465
23	Rent, communications, and utilities	5,923	5,514	5,563
24	Printing and reproduction	1,727	1,631	1,550
25	Other services	3,816	4,862	3,314
	Services of other agencies	464	781	817
26	Supplies and materials	1,907	1,888	1,239
31	Equipment	3,956	2,429	1,008
41	Grants, subsidies, and contributions	860	800	475
42	Insurance claims and indemnities	398	190	50
	Total costs	160,169	161,401	156,524
	Change in selected resources	1,911	−1,590	
	Total obligations	162,080	159,811	156,524

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	20,713	19,604	18,830
Full-time equivalent of other positions	6	6	6
Average number of all employees	19,582	18,538	17,908
Employees in permanent positions, end of year	19,300	18,504	17,965
Employees in other positions, end of year	128	119	119
Average GS grade	6.6	6.7	6.7
Average GS salary	$6,565	$7,020	$7,104

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. General administration	13,362	13,663	13,328
2. Data management	11,829	10,300	10,759
3. Veterans' benefits:			
(a) Program planning and direction	9,633	11,172	10,024
(b) Field operations:			
(1) Executive administration	2,913	3,114	3,208
(2) Contact	7,634	7,273	7,036
(3) Compensation and pensions	28,932	28,770	29,675
(4) Vocational rehabilitation and education	8,464	8,938	6,633
(5) Loan guarantee	20,032	21,786	21,946
(6) Guardianship	12,608	12,698	12,449
(7) Insurance	11,250	8,917	8,342
(8) Office services	33,512	34,770	33,124
Total program costs, funded [1]	160,169	161,401	156,524
Change in selected resources [2]	1,911	−1,590	
Total obligations	162,080	159,811	156,524
Financing:			
Comparative transfers from and to other accounts	−1,589	−1,318	
Unobligated balance lapsing	754	1,217	
New obligational authority	161,245	159,710	156,524
New obligational authority:			
Appropriation	161,130	159,750	156,524
Transferred from "Grants to the Republic of the Philippines for care and treatment of veterans" (77 Stat. 39)	150		
Transferred to "Operating expenses, Public Buildings Service," General Services Administration (76 Stat. 728 and 77 Stat. 436)	−35	−40	
Appropriation (adjusted)	161,245	159,710	156,524

[1] Includes capital outlay as follows: 1963, $3,956,000; 1964, $2,429,000; 1965, $1,008,000.
[2] Selected resources as of June 30 are as follows:

	1962	1963 adjustments	1963	1964	1965
Unpaid undelivered orders	227	−15	2,155	565	565
Advances	36		4	4	4
Total selected resources	263	−15	2,159	569	569

APPROPRIATION LANGUAGE

Mr. THOMAS. Let us turn to the appropriation language shown on page 406 of the committee print.

There is nothing in this language that is giving anybody any trouble. This covers the necessary operating expenses of the Veterans Administration and I do not see anything new in here. I do notice a reimbursement to the Department of the Army for the services of officers assigned to the Veterans Administration. That has been the law for 10 or 15 years?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Last year the bill was $159,750,000 and this year it shows a reduction to $156,524,000.

Are these two proviso limitations at the bottom of the page on public relations people in payment of school fees rigidly respected and lived up to, Mr. Administrator?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Mr. Reporter, insert page 4–1 of the justifications.

(The page follows:)

GENERAL OPERATING EXPENSES, $156,524,000

The general operating expenses appropriation supports the following three major segments of the agency: general administration; the Department of Veterans' Benefits; and the Department of Data Management. General administration includes the Office of the Administrator and all supporting staff offices with the exception of the Office of the Assistant Administrator for Construction, which is financed by the medical administration and miscellaneous operating expenses appropriation.

HIGHLIGHTS

During the latter half of fiscal year 1963 the following organizational changes were put into effect:

1. The merger of the former Department of Insurance with the Department of Veterans' Benefits.
2. The establishment of a new Department of Data Management.
3. The realinement of staff office functions, eliminating the offices of the Assistant Administrator for Management Services and establishing an Office of the Assistant Administrator for Management and Evaluation.

The past, current, and budget year requirements show the actual and estimated costs adjusted to reflect the above organizational changes. Functions previously financed under other appropriations are shown by "comparative transfers."

A net decrease of $3.2 million in appropriation requirements is forecast for fiscal year 1965. This reduction has been achieved in spite of salary rate increases authorized by recent legislation and a shift of data processing functions previously financed under other appropriations. Excluding these items, a decrease of $7 million would have been projected resulting from (1) increased productivity; (2) declining workloads; and (3) transfer of costs of payment of compromise settlements resulting from tort claims (38 U.S.C. 351) and burial flags to the compensation and pension appropriation.

ORGANIZATIONAL CHANGES

Mr. THOMAS. This has good narrative material.

During the latter half of 1963, the following organizational changes were put into effect (reading):

1. The merger of the former Department of Insurance with the Department of Veterans' Benefits.
2. The establishment of a new Department of Data Management.
3. The realinement of staff office functions, eliminating the offices of the Assistant Administrator for Management Services and establishing an office of the Assistant Administrator for Management and Evaluation.

That is a play on words.

AVERAGE EMPLOYMENT AND PERSONNEL COMPENSATION

Let us put page 4–2 in the record.
(The page follows:)

GENERAL OPERATING EXPENSES, $156,524,000

The following tables present average employment and actual costs and appropriation amounts for the past, present, and budget years by departments and selected classes of expenditures:

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
General administration:				
Average employment	1,330	1,297	1,220	−77
Personnel compensation	$10,502,857	$10,951,868	$10,858,263	−$93,605
All other	2,858,881	2,711,132	2,469,737	−241,395
Total costs	13,361,738	13,663,000	13,328,000	−335,000
Department of Veterans' Benefits:				
Average employment	17,240	16,225	15,636	−589
Personnel compensation	$112,207,227	$112,415,000	$111,157,500	−$1,257,500
All other	22,770,878	25,023,000	21,279,500	−3,743,500
Total costs	134,978,105	137,438,000	132,437,000	−5,001,000
Department of Data Management:				
Average employment	818	872	920	+48
Personnel compensation	$5,220,505	$6,369,000	$7,042,000	+$673,000
All other	6,608,706	3,931,000	3,717,000	−214,000
Total costs	11,829,211	10,300,000	10,759,000	+459,000
Grand total:				
Average employment	19,388	18,394	17,776	−618
Personnel compensation	$127,930,589	$129,735,868	$129,057,763	−$678,105
All other	32,238,465	31,665,132	27,466,237	−4,198,895
Total, general operating expenses	160,169,054	162,401,000	156,524,000	−4,877,000
Change in selected resources	+1,911,397	−1,590,000	----------	+1,590,000
Total obligations	162,080,451	159,811,000	156,524,000	−3,287,000
Unobligated balance lapsing	+753,705	+1,217,000	----------	−1,217,000
Transfers: comparative transfers from other accounts (net)	−1,589,563	−1,318,000	----------	+1,318,000
To "General Services Administration"	+35,357	+40,000	----------	−40,000
Total appropriation or estimate	161,279,950	159,750,000	156,524,000	−3,226,000

Mr. OSTERTAG. May I ask a question at this point, Mr. Chairman?
Mr. THOMAS. Sure.

MERGER OF DEPARTMENT OF VETERANS' BENEFITS AND DEPARTMENT OF INSURANCE

Mr. OSTERTAG. I am sure that there is a good answer, but does this merger between the Department of Insurance and the Department of Veterans' Benefits lend itself to economy?
Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. The cost of operations?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. How does it work in practice? How do you separate insurance from veterans' benefits? Is there a dual operation or is it separated within a new Department?

Mr. GLEASON. No, sir; it would be just one section of the Department itself.

Mr. OSTERTAG. The people who are dealing with one would deal with the other?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. The overall personnel necessary for the two would be reduced considerably?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Thank you.

Mr. THOMAS. Gentlemen turn to the chart on page 4–3. Are the jobs shown here man-years or what?

Mr. MONK. Average man-years.

Mr. THOMAS. Why do you not also put jobs in there and then we would know what we are doing. Is this figure for 1963 overall?

Under Department of Data Management you show so many but it was not in operation at that time and you have 840 people shown there. I thought you only put it in operation in the last 6 months.

Mr. MONK. This is constructed on a comparative basis.

Mr. THOMAS. Next, Department of Veterans' Benefits, 17,808?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. You have common service adjustment shown here. What is that?

Mr. SHYTLE. That is the employment we sell from one appropriation to another.

Mr. THOMAS. What else?

Mr. SHYTLE. Personnel.

Mr. THOMAS. The total is 19,388?

Mr. SHYTLE. That is right.

Mr. THOMAS. Then it goes down to 18,394 in 1964 and for 1965 you are down to 17,776.

That is a reduction of what?

Mr. SHYTLE. 618.

GENERAL ADMINISTRATION

Mr. THOMAS. Mr. Reporter, insert pages 5–1 and 5–2.

(The pages follow:)

GENERAL OPERATING EXPENSES

GENERAL ADMINISTRATION, $13,663,000

General statement

In the administration of the Veterans' Administration, the Administrator requires appropriate supporting staff services to keep him informed and advised of the development of agencywide policies and objectives, and to also keep him apprised of the effectiveness and economy of agency operations.

With the exception of the Office of the Assistant Administrator for Construction which is shown under the heading of the Department of Medicine and

Surgery, these supporting staff services are grouped under the title "General Administration," and include the following offices:

Information Service.
General Counsel.
Board of Veterans' Appeals.
Assistant Administrator for Personnel.
Assistant Administrator for Management and Evaluation.
Administrative Services.
Controller.

During fiscal year 1963, the Offices of the Assistant Administrator for Appraisal and the Assistant Administrator for Management Services were merged into a new Office of the Assistant Administrator for Management and Evaluation. All the functions and responsibilities of the two Offices were assumed by the new Office except for certain functions which were transferred to the Department of Medicine and Surgery and the Department of Data Management. In addition certain functions of the Manager, Administrative Services were transferred to the Department of Data Management. The functions transferred are listed as follows:

1. *To the Department of Medicine and Surgery.—*

(*a*) Civil defense and disaster relief functions involving assistance to and participation with the Department of Health, Education, and Welfare in the fulfillment of that Department's responsibility for the development of plans and guidance to utilize to the maximum extent the existing health resources of the VA.

(*b*) Supply management functions in the specific areas of (1) advice and assistance to the departments and staff offices on contractural and supply operations, (2) conducting a continuing program of appraisal and evaluation in accordance with established policies, (3) conducting research in the field of purchasing, storage, distribution, control, and conservation of supplies and equipment as practiced in the VA and in other organizations both public and private, and the development and recommendation of improved practices for the VA, (4) analyzation of markets and the preparation of market forecasts, (5) development of market sources and the maintenance of favorable relations with vendors, (6) VA supply fund management involving among other things, the determination and necessity for subordinate fund operations.

(*c*) The mechanical aids function of selection, testing, and installation of pneumatic tubes and conveyor systems in VA hospitals.

2. To the Department of Data Management—

(*a*) Telecommunications.

(*b*) Automatic data processing services.

The past, current, and budget years show the actual and estimated costs adjusted to reflect the above organizational changes.

Employment and cost data for staff offices is individually set forth in the following presentation.

Mr. THOMAS. What is the function of these 1,300 people? Where is this broken down under General Administration?

You have the Office of the Administrator, the Information Service, General Counsel, Board of Veterans' Appeals, Assistant Administrator for Personnel, Assistant Administrator for Management and Evaluation, Manager for the Administrative Service, and then the Comptroller's Office.

For this year that makes 1,220?

Let us take a quick look at each one of these. I assume you have a breakdown for each of these for the last 3 years?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Where is the breakdown for the last 3 or 5 years for each one of these?

Mr. MONK. There is an overall summary table shown on page 5–3.

Mr. THOMAS. It will take a magnifying glass to find it.

Office of the Administrator

Let us put pages 5–4, 5–6, and 5–7 in the record. This is the Office of the Administrator under "General operating expenses."

(The pages follow:)

Office of the Administrator, $803,000

Summary of requirements

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	55	56	56	
Personnel compensation	$598,515	$648,800	$669,300	+$20,500
Personnel benefits	42,194	47,800	48,400	+600
Subtotal	640,709	696,600	717,700	+21,100
Travel and transportation of persons	26,130	31,700	31,700	
Transportation of things		1,000	1,000	
Other services	17,509	38,500	36,300	−2,200
Supplies and materials	11,673	8,900	8,800	−100
Equipment	4,824	7,300	7,500	+200
Total cost	700,845	784,000	803,000	+19,000

Distribution of average employment

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate
Administrator, Deputy Administrator, Associate Deputy Administrator, and staffs	33	33	33
Assistant Deputy Administrator and staff	4	2	2
Administrator's Advisory Council	12	15	15
Contract Appeals Board	6	6	6
Total	55	56	56

The Administrator is responsible to the President for the administration of veterans' affairs and the laws which govern them.

The Deputy Administrator is the principal assistant to the Administrator in the administration of the VA.

The Associate Deputy Administrator assists the Administrator and the Deputy Administrator in the administration of the VA. He takes independent action for the Administrator on all problems affecting the VA in the areas of office methods and administration, supply management, budget, construction, fiscal, personnel, management audits, and investigation and security, which do not require the personal attention of the Administrator or the Deputy Administrator. He acts for the Deputy Administrator in the latter's absence and for the Administrator in the absence of both the Administrator and the Deputy Administrator. The Assistant Administrator for Management and Evaluation, Construction, Personnel, the VA Controller, and the Manager, Administrative Services, report to the Administrator and the Deputy Administrator through the Associate Deputy Administrator.

The Assistant Deputy Administrator, as full assistant to the Administrator and the Deputy Administrator, participates in high-level policy discussions and contributes recommendations regarding solutions of problems and decisions to be made on all programs administered by VA. As directed, he represents the Administrator with the Congress, other Federal agencies, and the Bureau of the Budget. He also acts for the Associate Deputy Administrator in the latter's absence and for the Deputy Administrator in the absence of both the Deputy Administrator and the Associate Deputy Administrator.

The Assistant Deputy Administrator makes independent recommendations to the Administrator as to areas which should receive priority in substantive research, and recommends approval, disapproval, or revision of plans submitted by department heads and staff offices. He is the Administrator's top planning officer and director of substantive research.

The Executive Assistant directs the central coordinating staff for the Office of the Administrator. He presents to the Administrator those matters requiring his personal attention. His staff monitors special projects and assignments and insures that required action is controlled and coordinated; does for the Administrator and his deputies what they would do for themselves in their official capacity if they had the time; acts as point of contact for operating matters coming to the Office of the Administrator and is responsible for the last line of review before an action is taken or a decision is made in the operations of the agency; and discharges for the Administrator all matters of administrative nature within the Administrator's office.

The Contract Appeals Board is an integral part of the Office of the Administrator. Under the Chairman, this Board, by delegation of authority from the Administrator, acts as his authorized representative to ascertain the facts and circumstances attending appeals by contractors from decisions of VA contracting officers under construction, architect-engineer and supply contracts; and to render final decisions on such appeals in accordance with contract provisions.

The Administrator's Advisory Council, under a Chairman, advises the Administrator on policies, plans, research programs, organization, and whether established programs are meeting their objectives. The Chairman of the Administrator's Advisory Council is assisted by a deputy chairman who is a member of the council and also director of planning. The Council is concerned with such matters as how veterans compare with nonveterans, what are the handicaps and needs of veterans in various categories, what new programs are needed, what changes to established programs should be made, and the long-range impact of both existing and proposed programs upon sociological and economic welfare of the veteran population as a whole.

Mr. THOMAS. The increase in the Office of the Administrator this year is $19,000. It goes up from $784,000 to $803,000. The big item in here is compensation and personal benefits are around 48. That is statutory and you cannot do anything about it.

Are we to assume you pay your part of the $75 million total pay increase in the Veterans' Administration?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. What about your travel account of $31,700?

Mr. GLEASON. We all travel, Mr. Chairman.

Mr. THOMAS. Did we not cut the Administrator 15 percent on his travel allowance last year? Now he comes right back with the same amount. He did not respect that cut; did he?

Mr. GLEASON. As a matter of fact, sir, I would like to be able to do more traveling than I do.

Mr. THOMAS. That means you can cut this $31,700 down to $18,250; is that about it?

Mr. GLEASON. No, sir.

INFORMATION SERVICE

Mr. THOMAS. Let us look at the Information Service.

Let us put pages 5–10 and 5–12 in the record.

(The pages follow:)

INFORMATION SERVICE, $550,000

Summary of requirements

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	43	43	43	
Personnel compensation	$386,844	$418,444	$434,799	+$16,355
Personnel benefits	29,037	30,956	32,101	+1,145
Subtotal	415,881	449,400	466,900	+17,500
Travel and transportation of persons	20,413	21,300	21,300	
Transportation of things		1,500	1,500	
Other services	40,034	55,000	53,000	−2,000
Supplies and materials	4,339	3,800	4,300	+500
Equipment	954	1,000	3,000	+2,000
Total cost	481,621	532,000	550,000	+18,000

MISSION

The threefold mission of Information Service is (a) to keep veterans and their dependents informed of their rights and benefits as provided by law, and the proper procedures to be followed in applying for such benefits; (b) to keep the general public informed in regard to VA operations, activities, and policy determinations through the release of general information to a wide variety of media, and by answering thousands of inquiries received from newspaper and magazine representatives, Members of Congress, veterans' organizations, and other individuals and organizations; and (c) counseling and advising the Administrator, his principal assistants, and field station managers concerning public interest and reactions as they concern the determination of VA policies.

In providing accurate and timely information through Information Service, VA not only fulfills an obligation to veterans and their dependents, but also eliminates countless inquiries which would otherwise impose an added administrative burden, and thus retard service. To the extent that beneficiaries are apprised concerning eligibility requirements and correct procedures to follow in dealing with VA, the costs of operating programs are reduced.

WORKLOAD

The number of veterans and dependents who must be kept informed of benefits, laws, regulations, and policies will continue at about the present level. No lessening is anticipated in the needs of operating officials for the promulgation of advisory information to beneficiaries and others regarding proper procedures, policy and administrative changes, etc., and the heavy volume of press and other inquiries in regard to general programs and special happenings is expected to continue apace. Legislative changes and refinements enacted in each session of Congress require special informational effort.

In addition to its regular functions, Information Service again will be expected to spearhead ever-growing general Government programs, such as the President's Committee for Employing the Handicapped, and Veterans' Day, and assist with other broad programs such as United Nations Day, National Hospital Week, National Mental Health Week, etc.

FIELD AND CENTRAL OFFICE BREAKDOWN

Mr. THOMAS. Do you still have 43 people here? Where is our information officer?

Mr. HOOD. We still have 43, sir.

Mr. THOMAS. What do you need with all of those people? Where are they located?

Mr. HOOD. Twenty-three are located in the field and twenty in the central office. We have 11 field offices with 1 man and a secretary there.

Mr. THOMAS. Do you mean you have 32 here?

Mr. HOOD. No; we have 20 in Washington and 23 in the field.

Mr. THOMAS. Whereabouts in the field?

Mr. HOOD. The field stations are located in Seattle, Los Angeles, Denver, St. Paul, Chicago, Kansas City, Dallas, Boston, New York, Washington, D.C., and Atlanta.

Mr. THOMAS. What installations are they attached to in these cities?

Mr. HOOD. The regional office in every case.

FIELD INSTALLATIONS

Mr. THOMAS. How many regional offices are there now?

Mr. HOOD. Sixty-seven.

Mr. GLEASON. Sixty-six with Dallas-Waco consolidation. We had 67.

Mr. THOMAS. Is every city where you have a hospital a region now?

Mr. MONK. No, sir.

Mr. THOMAS. What activities are in your region now?

Mr. MONK. All of the activities other than medical.

Mr. THOMAS. You transferred Insurance out of them?

Mr. MONK. No; we just merged Insurance with the Department of Veterans' Benefits, which governs the operation of these regional offices.

Mr. THOMAS. That is where the claims are paid?

Mr. MONK. Regional offices.

Mr. THOMAS. All of the forms are made out in the regional offices?

Mr. MONK. Yes, sir.

Mr. THOMAS. What became of your Minneapolis office and the big office in Philadelphia and the one in Atlanta? What became of those?

Mr. GLEASON. Philadelphia is still there.

Mr. THOMAS. What is their function as compared to your regional offices?

Mr. GLEASON. The same thing, except that Philadelphia and St. Paul have additional responsibility for insurance activities.

Mr. BRICKFIELD. In two locations, Mr. Thomas, we have insurance centers. Philadelphia, in addition to the regional office activities has insurance activities. The regional office takes care of compensation and pension, loan guarantee, vocational rehabilitation, and things of that nature.

In 64 offices we have the usual functions of a regional office, and in two more; that is, in St. Paul and Philadelphia we also have insurance activities.

Mr. THOMAS. You closed up Denver?

Mr. BRICKFIELD. That is right.

Mr. THOMAS. You have not yet told me what the regional office does.

Mr. GLEASON. The regional office is in——

Mr. DRIVER. They consolidated the regional and insurance office.

Mr. THOMAS. For all practical purposes, your regional offices do not do any insurance?

Mr. DRIVER. They handle the claims.

Mr. THOMAS. That is what I asked you a while ago.

Mr. GLEASON. In the chart shown on pages 8–15 it gives you a pretty idea of the organization of a regional office.

Mr. EVINS. Would the Chairman yield?

Mr. THOMAS. Yes.

AREA MEDICAL OFFICES

Mr. EVINS. Do your regional offices also include administration and clearance for all hospital management requests?

Mr. GLEASON. No, sir.

Mr. DRIVER. They only render legal service for the hospitals.

Mr. EVINS. Hospital management is directed to the central office through the area offices?

Mr. GLEASON. We have the area medical offices.

Mr. EVINS. Spell those out and tell us where they are located.

Mr. GLEASON. Dr. McNinch, will you give them the exact locations?

Mr. EVINS. I thought we abolished the area office management of hospitals.

Mr. GLEASON. No, sir.

Mr. EVINS. So that the hospital manager could deal directly with the chief medical officer.

Mr. GLEASON. We consolidated a little bit and brought the area medical direrors to Washington a year ago.

Dr. McNinch is the new Chief Medical Director. He has only been here now about 6 months and he would like to have an opportunity to make a study of the area medical offices situation.

Mr. EVINS. We are talking about the services of the regional offices. It was our impression that you have had a lot of duplication and overlapping in your regional offices, particularly in the hospital administration and medical field. You brought those gentlemen into Washington and I was just asking you if the medical administration was still continued in your regional offices?

Mr. GLEASON. No, sir. The regional offices are different from area medical offices.

Mr. EVINS. Tell us about the medical offices, or should we wait until we get to that?

Mr. GLEASON. I would prefer we wait until we get to that.

Mr. OSTERTAG. Mr. Chairman, may I just ask this question?

Mr. THOMAS. Sure.

MERGER OF DEPARTMENT OF VETERANS' BENEFITS AND DEPARTMENT OF INSURANCE

Mr. OSTERTAG. You referred to the merger of your insurance and your veterans' benefits sections some time ago. How does it work? Is that a merger from the central office down through every area and

is supervision provided by one director over both benefits and insurance?

Mr. GLEASON. Yes, sir.

Mr. DRIVER. He is the Chief of the benefits section.

Mr. GLEASON. The Chief of Benefits is responsible.

Mr. OSTERTAG. Wherever insurance is administered?

Mr. GLEASON. It would be under the Chief of Benefits.

Mr. OSTERTAG. Under the benefits division?

Mr. GLEASON. That is correct.

Mr. OSTERTAG. It is a consolidation from the top right down to the local level?

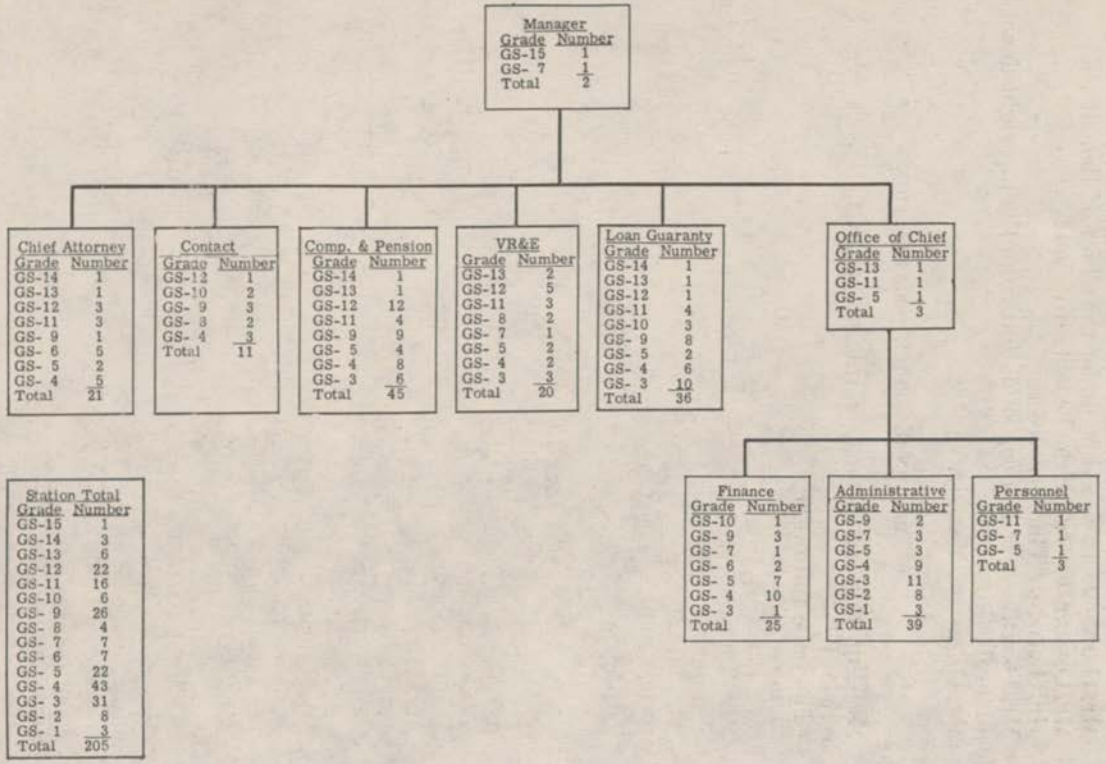
Mr. GLEASON. Yes, sir.

REGIONAL OFFICE ORGANIZATION

Mr. THOMAS. Gentlemen, at this point, let us insert page 8–15 in the record.

(The page follows:)

DEPARTMENT OF VETERANS BENEFITS
ORGANIZATION OF A REGIONAL OFFICE



Mr. THOMAS. This shows the organization of the regional office and it is not a chart which shows one iota of change since they sent out the insurance divisions to these three separate insurance offices. Here you have the chief attorney and then the contact division, and then compensation and pension and next is the V.R. & E., the loan guarantee, and that is it?

Mr. GLEASON. Mr. Chairman, I mentioned V.R. & E. in my statement. They were consolidated on February 1 and this will save us about 15 persons, or a saving in the first year of about $128,000.

Mr. THOMAS. You combined compensation and benefits, V.R. & E., but they still remain in the regional offices?

Mr. GLEASON. Right.

INFORMATION SERVICE

Mr. THOMAS. Let us get back to the Information Service. We have already put the justification in the record. We were talking with Brother Hood a while ago.

You say you have 20 employees in Washington and 23 in the field?

Mr. HOOD. Right.

Mr. THOMAS. Did you just pick your geographical location or your big population centers? How did you figure your 23?

Mr. HOOD. Basically, geographic location in 11 offices. They serve an average of about five States apiece. They also serve an average, I would say, of about 19 or 20 hospitals.

FIELD JURISDICTION—INFORMATION SERVICE

Mr. THOMAS. What is your jurisdiction and authority for your people in the field? Do you furnish a copy from here and only have releases made from here? If that be true, why do you need that many in the field?

Mr. HOOD. As to the operation of the Veterans' Administration in the field, we do not hospitalize any veterans in Washington or pay claims, so they are out there where the operation is and that is why we have a shade more than half of our strength there.

Mr. THOMAS. You have contact and information people out there. It is a Contact Division?

Mr. HOOD. No; I am talking about Information, sir.

Mr. EVINS. The chairman asked about the Dallas Information Office.

Mr. THOMAS. You do not send that to them?

Mr. HOOD. I can assure you of this: They like the Federal information better from Dallas than getting it wholesale from Washington. First of all, I would say they, at least, quadruple the coverage of information we get out in the way of news releases and radio and television material.

Mr. THOMAS. How much authority do you give your information specialists in the field? Does copy come from here? Does every man operate footlose and fancy free and make all the releases he has time to make, or does he rely on his own good judgment? What is the rule and regulation?

Mr. HOOD. We give him pretty much carte blanche but we also provide guidelines from here. They are receiving the releases we get out of about 500 a year from the central office. They then localize those in Tennessee or Texas because this is much more meaningful to the newspapers down there.

Mr. THOMAS. What are the grades of your field officers?

Mr. HOOD. They are 13's. They have secretaries who are grade 6.

Mr. EVINS. A lot of Congressmen localize these things if you will give them the information.

Mr. HOOD. You are asking about what they do and perhaps it would help you to have some specifics. Remember, we were talking about a lot of loan guarantee, foreclosures and the need for VA selling homes.

Just last December our man in New York City wrote a story and had walked it down to the New York Times, and also got it in other area papers. The result of this one story was that the regional office in New York City had 4,650 inquiries in regard to homes. That is, written inquiries, when we told them we had homes for sale and that nonveterans could buy them as well as veterans. They had 844 phone calls. That will lead inevitably to many sales. How many, I do not know.

Our man in Boston, a month earlier, placed another story in the Boston papers just on this one subject and the result of that was 793 telephone calls inquiring about houses for sale.

Mr. EVINS. We are all for information, but we thought you could run your Information Office from Washington.

Mr. HOOD. You really cannot do that. We get about $30 million worth of radio and television time donated as a public service to us. This is a tremendous thing and it is a great thing on the part of the industry, that they are willing to do this. Our fieldmen and our field installations have to distribute all of that material. You simply cannot mail it out of Washington. If you did, about 90 percent of it would go into file 13.

Mr. THOMAS. May I interrupt you right there? If it goes into file 13 over the years, does it make much difference?

Mr. HOOD. I think it makes a great deal of difference; yes.

Mr. THOMAS. I find that in my own shop the only difference it makes for my own propaganda is that it goes into file 13 and does not clutter up the files.

PRINTING

We are now getting into your "Printing and binding" item and as we often say here, we think that for printing and binding, all of our agencies spend anywhere from 25 or 30 percent too much. Everybody is deluged with mail and releases. I bet there is not 1 in 10 or 15 releases by all Government agencies that ever has any attention paid to it by anybody.

Mr. HOOD. I like to think about 80 percent of our stuff gets used. Maybe that is flattery.

Mr. THOMAS. I do not blame you for hoping, but let us be practical about it.

Mr. HOOD. We have a pretty good assessment on the thing.

Mr. THOMAS. How did you get an assessment on it?

Mr. HOOD. Largely through newspaper subscriptions. In other words, you put a release out and see if it ever sees the light of print. I think our stuff on spot checks shows we have pretty close to 80 percent usage. What I try to do——

Mr. THOMAS. It is more or less a patriotic thing on the part of the papers to print some of that information.

Mr. HOOD. We are grateful to them. It is a great help to us and the operating officials——

Mr. EVINS. If you ran an ad and said, "Contact your local VA office," they could pass the information on?

Mr. HOOD. Put an ad in the paper?

Mr. EVINS. Give out any information, perhaps on a sheet from Washington saying, "Make inquiry of your local VA office."

Mr. SHIPLEY. Mr. Chairman, may I ask one question?

Mr. THOMAS. Sure.

NEWSPAPERS AND PERIODICALS

Mr. SHIPLEY. Is that what the $3,700 is used for, newspapers and periodicals? How does that tie into the information program? That is a lot of newspapers and periodicals.

Mr. HOOD. Mr. Shipley, we have $3,700 for subscriptions to 143 newspapers.

Mr. SHIPLEY. Where do they go, here in Washington?

Mr. HOOD. A handful comes here to Washington. The New York Times, for instance, and the Wall Street Journal. The preponderance of the papers go to our men in the field.

Mr. SHIPLEY. What does he use them for?

Mr. HOOD. He uses them primarily for two things: One, a use yardstick as to just what we are talking about, and he puts out a release and unless he gets on the wire or gets into the newspapers, they are not really doing any good. This is a measurement of value.

Then it also gives us an indication of the reaction to the Veterans' Administration policy and activities and principles.

Mr. SHIPLEY. Can this not be done through your local VA offices?

Mr. HOOD. We do that, too, but it simply will not come in as fast as when you subscribe to the newspapers. Otherwise, they get wasted. If you count on the papers that are taken at home, part of them wind up in the garbage can and that sort of thing. This is a more expeditious method.

Mr. SHIPLEY. That is all I have, Mr. Chairman.

OFFICE OF THE GENERAL COUNSEL

Mr. THOMAS. Gentlemen, let us turn to the General Counsel and put pages 5–15 in the record.

(The page follows:)

GENERAL COUNSEL, $1,267,000

Summary of requirements

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	103	104	104	
Personnel compensation	$993,743	$1,071,904	$1,107,558	+$35,654
Personnel benefits	73,212	79,046	83,280	+4,234
Subtotal	1,066,955	1,150,950	1,190,838	+39,888
Travel and transportation of persons	9,835	9,350	9,350	
Transportation of things	1,246			
Other services	457	700	500	−200
Supplies and materials	12,680	11,000	10,500	−500
Equipment	8,398	10,000	5,312	−4,688
Insurance claims and indemnities	397,997	190,000	50,500	−139,500
Total cost	1,497,568	1,372,000	1,267,000	−105,000

Mr. THOMAS. This shows $1,267,000 for 1965 for the General Counsel's Office. I remember several years ago the functions and the duties of the General Counsel were split up, and in fact at one time he had a tremendous staff of 1,000 or so people and the majority of his staff were sent to the regional offices. That is where they are now.

This is not covered in General Administration but is in the other part of it, charged variously throughout the budget.

They come under the jurisdiction not of the General Counsel, but under the local regional director; correct?

Mr. SHYTLE. Yes, sir.

Mr. THOMAS. You show minus $105,000 as against last year's figure of $1,372,000 compared to $1,267,000 for 1965. The biggest plus item here this year is for personnel compensation of 104 last year and this year but a total increase of $35,654.

Does that include within-grade promotions and all pay act costs?

Mr. GLEASON. Both.

Mr. THOMAS. Break it down.

Mr. GLEASON. We could supply it for you, Mr. Chairman.

Mr. EVINS. The dollar value in the General Counsel's Office compared with others is not very large but from the point of view——

Mr. GLEASON. This is shown on page 5–18. The only thing we can say about that is that the 1964 increase over 1963 is primarily attributable to increased rates provided by Public Law 87–793.

Mr. THOMAS. Your breakdown here does not indicate that.

Mr. GLEASON. We did not break it down.

Mr. THOMAS. Your other items do not indicate any appreciable change.

GENERAL COUNSEL WORKLOADS

Under "General Counsel opinions," this is the workload chart. We might put page 5–17 in the record.

(The page follows:)

The General Counsel is the chief officer of the Veterans' Administration in all matters of law and legislation.

The primary responsibilities of the Office of the General Counsel are: (1) Rendering advice and opinions directly and through chief attorneys; (2) reviewing for legal correctness all regulations and directives; (3) collaborating with the Department of Justice on litigation; (4) supervising and coordinating matters pertaining to proposed legislation, Executive orders and proclamations; and (5) maintaining liaison with both Houses of Congress. To carry out these responsibilities, in addition to the General Counsels' immediate staff, the office is organized into five professional staff groups, four with responsibility for the full range of legal and legislative activities, and the fifth, handling a smaller volume of legal and legislative matters, provides administrative, liaison, and management services.

Summary of major workloads

	Fiscal year 1963, actual	Fiscal year 1964, estimated	Fiscal year 1965, estimated
General Counsel opinions requested	1,584	1,600	1,600
Litigation briefs	1,595	1,600	1,600
Legislative history files maintained	1,962	950	[1] 1,900
Legislative reports prepared	388	390	395
Studies conducted and résumés prepared	303	300	300

[1] The number of bills introduced concerning veterans serves as the base upon which the number of legislative history files maintained is determined. Experience has shown the first session of a Congress to be more active in the introduction of bills than the second session.

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
10 Personal services and benefits				
11 Personnel compensation	$993,743	$1,071,904	$1,107,558	+$35,654
12 Personnel benefits	73,212	79,046	83,280	+4,234
Total	1,066,955	1,150,950	1,190,838	+39,888

Mr. THOMAS. Under "General Counsel opinions requested," you show 1,600 estimated and then under "Litigation briefs," 1,600. We do not like these round figures.

Under "Legislative history files maintained," you have 950 as against 1,900 and then you have an asterisk. What does that mean?

Mr. GLEASON. There is a footnote to explain the increase.

DUTIES OF THE GENERAL COUNSEL

Mr. THOMAS. What are the duties of the General Counsel's Office? This is domiciled in the District of Columbia. Is the Chief Counsel here?

Mr. GLEASON. Right behind me, Mr. Chairman. He is the chief officer on all matters of law and legislation.

Mr. THOMAS. Tell us what you are doing.

Mr. FABLE. Mr. Chairman, before I take up my duties, an honest confession, I might say, is good for the soul.

Mr. THOMAS. Do not tell too many family secrets.

Mr. FABLE. You are going to come to this sooner or later, so we might as well get to it now.

On page 5–15, it shows a decrease in insurance claims of $139,500. That is not because there is an actual decrease but it is because, under the proposed structure of the appropriation, there is going to be $156,000 requested added in the compensation and pension appropriation to take care of malpractice cases.

Mr. OSTERTAG. Formerly that was under this Office of the General Counsel?

Mr. FABLE. Yes, sir; the net increase in that particular item amounts to $16,500.

Having gotten that off my conscience, I would like to tell you about my duties.

Mr. THOMAS. Go ahead.

Mr. FABLE. The primary one is to give advice and legal opinions to the Administrator and his staff here in Washington, and then to give assistance to chief attorneys in the field when they have legal questions they are not in a position to answer. They put out about 10,000 opinions a year which never come near us but there are about 500 opinions roughly that will come into us for review, before release. They come to us for one of two reasons: either because there is involved a matter of VA law for which there is no precedent, or a matter of State law in a State in which they do not have jurisdiction. In addition we have the responsibility for the matter of going over all proposed regulations and directives to see that they are legally accurate. We coordinate matters pertaining to proposed legislation, Executive orders, and proclamations. Then we have the Congressional Liaison Service here at the Capitol which provides service to individual Members of Congress with respect to individual cases.

CONGRESSIONAL LIAISON SERVICE

Mr. EVINS. Is the Liaison Service under the General Counsel's Office or under administration?

Mr. FABLE. No, sir; under the General Counsel's Office or its predecessors, and it has been since 1945.

Mr. EVINS. This is for giving reports on bills?

Mr. FABLE. No; Congressional Liaison deals with individual cases. We take care of the reports on bills in our immediate office.

Mr. EVINS. The Liaison Service comes under the General Counsel's Office?

Mr. FABLE. Yes, sir.

Mr. OSTERTAG. In other words, Congressional Liaison is under your office and is limited strictly to casework or individual cases?

Mr. FABLE. That is correct.

Mr. OSTERTAG. Which might channel through a Congressman's office?

Mr. FABLE. That is correct. There were personal and telephone contacts which totaled over 80,000 in the course of a year. They put

out over 12,000 letters and memorandums and reviewed in the neighborhood of 600 C files at the request of individual Members of Congress. There are 10 individuals in that service, Mr. Congressman.

Mr. SHIPLEY. Why is it that there is so much activity in the Congressional Liaison Office? Is it lack of information to veterans? Why do we have so many calls, letters? What generates this?

Mr. FABLE. I think it is all a part and parcel of the point Mr. Hood was making. There is a wide interest on the part of the veteran population, their wives and children, in knowing what benefits are available. In many instances, they come to Members of Congress and Members of Congress then either go to the regional office or to the Congressional Liaison Service, as they see fit.

Mr. SHIPLEY. I realize what this has done, but I am trying to find out the reason for it. Why should they come to the Congressmen in the first place? The Veterans Administration should do this. Why is it? Do you know?

Mr. FABLE. I think it just shows they have a great deal of confidence in the Members of Congress.

Mr. SHIPLEY. Thank you, but that does not answer my question.

It is a problem and I think it should be solved somewhere but I do not know how. It is not right that a veteran should have to sit down and write his Congressman or Senator to get information that satisfies him.

Mr. GLEASON. Mr. Shipley, I think it is a point that they have more confidence in the Congressman, seeing they get a fair shake of the dice. They do not understand the Veterans Administration, actually how it works, and they do feel confident their Congressman will help them get a fair deal. I think this is one of the motivating factors.

Mr. SHIPLEY. Is this because you use too many form letters in answering veterans?

Mr. GLEASON. I do not think so. I think it is the way of the American citizen. He likes to go to the top and when he goes to the top and gets some action, right or wrong, favorable or unfavorable, he does feel satisfied then.

Mr. SHIPLEY. Maybe the Information Service can correct this. I hope so.

Mr. HOOD. Yes, sir; right away.

TRANSFER OF TORT CLAIMS

Mr. THOMAS. Judge Fable, if you are going to transfer $136,000——

Mr. GLEASON. Mr. Chairman, $156,000.

Mr. THOMAS (continuing). Under "Compensation and pensions," what amount are you transferring out?

Mr. FABLE. It is down $139,500. Actually, what we are planning on is $156,000.

Mr. THOMAS. Instead of minus $105,000, it would be what?

Mr. FABLE. $51,000. It would have been an increase of $51,000.

Mr. THOMAS. This is a minus figure of about $50,000?

Mr. FABLE. If we had done this year the same as in prior years, we would show a plus of $16,500 for this particular item.

Mr. THOMAS. This is to take care of tort claims where you settle out of court? Do you give the regional offices authority to settle tort claims under $2,500 on their own?

Mr. FABLE. Yes, sir.

Mr. THOMAS. Above $2,500 you keep strings on them?

Mr. FABLE. Over $2,500, the only settlement that could take place would be by the Department of Justice or where it gets the approval of the court. Agency awards stop at $2,500 under the Tort Claims Act.

Mr. THOMAS. According to the law, the Veterans' Administration has authority to settle those without consulting anybody?

Mr. FABLE. That is correct.

Mr. THOMAS. You let the regional offices do that?

Mr. FABLE. We do. We delegated that out to them within the past 12 or 14 months. However, Mr. Chairman, none of the matters being transferred to compensation and pension appropriation would fall under that category. Furthermore, I cannot conceive of any chief attorney making a compromise where the claims involve circumstances that fall into matters we have here, the section 351 cases.

Mr. THOMAS. I wondered what authority compensation and pensions have to pay a tort claim.

Mr. FABLE. May I go into that?

Mr. THOMAS. Look at the appropriating language. Turn to the committee print on page 423. Is that the first time you have used that language?

Mr. FABLE. Yes, sir.

Mr. THOMAS. Does it make sense to put it there rather than bring it back here where you can consult the Department of Justice locally?

Mr. FABLE. May I explain it to you, Mr. Chairman?

Mr. THOMAS. Yes.

Mr. FABLE. This is all going to be done in the future as it has in the past by the Department of Justice, with the approval of the courts. The only money that is going to be paid out of the compensation and pension appropriation is money which is the result of a compromise court-approved settlement. We have thought that this transfer to the compensation and pension appropriation was not only good commonsense but good accounting because Congress enacted Public Law 87–825 which provides for the offset.

Mr. THOMAS. To pay for pensions and compensation but not to pay anybody for negligence, being run over with an automobile or something of that nature.

MALPRACTICE TORT CLAIM PAYMENTS

Mr. FABLE. If the money which is paid in the compromise of a tort claim is potentially subject to the offset provision of section 351 of title 38, you will not pay him any compensation until the amount of compromise or settlement has been offset. That means where you have a malpractice case and where there is a court-approved compromise——

Mr. THOMAS. What do you mean by malpractice?

Mr. MONK. Something happens in the hospital that should not have.

Mr. THOMAS. This covers everything from soup to nuts, any tort case.

Mr. MONK. No; the other tort cases would still be paid out of this appropriation. The only ones we are talking about transferring are the so-called malpractice cases.

Mr. THOMAS. That is the only type of case transferred?

Mr. FABLE. Only those payable under section 351, title 38.

Mr. THOMAS (reading):

As amended, and for payment of amount of compromises or settlements under 28 U.S.C. 2677 of tort claims potentially subject to the offset provisions of 38 U.S.C. 351.

Does 38 U.S.C. 351 apply only to malpractice cases?

Mr. FABLE. No, sir; but section 351 benefits are only payable where it is shown—may I read from regulations covering it?

Mr. THOMAS. Let us see what the laws says. Subchapter VI, General Compensation Provisions; 351, benefits for persons disabled by treatment. By treatment? Or vocational rehabilitation. By treatment. I presume that is your malpractice. [Reading:]

Where any veteran shall have suffered an injury or aggravation of an injury as a result of hospitalization, medical or surgical treatment, or the pursuit of a course of vocational rehabilitation under chapter 31 of this title.

Ordinary tort claims are not covered. This is only medicine and education?

Mr. MONK. That is right, sir.

Mr. THOMAS. What about the offset provision?

Mr. FABLE. That results from Public Law 87–825. The offset provision says that if the money is paid as a result of the compromise, you will not pay compensation or pension until the compromise is offset. It is our feeling that the money which is going to be given to the veteran who brought the suit and who got the compromise is in lieu of compensation and therefore it should come out of the compensation and pension appropriation.

Mr. THOMAS. Since you assume he is already on the roll, drawing either compensation or pension——

Mr. DRIVER. Or would be put on.

Mr. THOMAS. Could be put on how?

Mr. DRIVER. As a result of the negligence.

Mr. FABLE. Under 351.

Mr. OSTERTAG. Would that be the result of the compromise?

Mr. FABLE. May I go back in history?

Mr. THOMAS. That goes back to service connected.

Mr. FABLE. Yes, sir. In 1924, under the World War Veterans Act, there was authority given to the Administrator of Veterans' Affairs, or rather to his predecessor, to put on the compensation rolls, as the language was just read, individuals whose disability is the proximate result of carelessness, accident, negligence, lack of proper judgment, or similar fault of the VA.

Mr. THOMAS. How would he get a pension? We will say X is not drawing a pension. He signs the form. He did not get within a thousand miles of a gunshot. You mean to say he can get——

Mr. DRIVER. Service connected.

Mr. THOMAS. You get service connected here?

Mr. DRIVER. Yes, sir.

Mr. OSTERTAG. He gets service connected because of the negligence?

Mr. GLEASON. Negligence of a surgeon.

Mr. OSTERTAG. Not in the service.

Mr. DRIVER. This is by law.

Mr. THOMAS. Let me read the law. I think the Legislative Committee spelled this out. [Reads:]

Administered by the Veterans' Administration or as a result of having submitted to an examination under any such law—

at his request—

and not the result of his own willful misconduct and such injury or aggravation results in additional disability * * *.

Suppose he did not have any?

Mr. GLEASON. That is additional.

Mr. THOMAS (reading):

* * * or the death of such veteran, disability or death compensation under this chapter and the dependency and indemnity compensation under chapter 13 of this title shall be awarded in the same manner as if such disability, aggravation, or death were service connected.

Mr. OSTERTAG. In other words, this is establishing service connection subsequent to service.

Mr. GLEASON. Yes, sir.

Mr. DRIVER. Just like a gunshot wound.

Mr. GLEASON. If a man was in for an operation and the surgeon let the knife slip and he was disabled for the rest of his life because of it, he becomes service connected.

Mr. OSTERTAG. That is what this does?

Mr. GLEASON. Yes, sir.

This transfers the funds to pay these costs from the General Counsel's Office to compensation and pensions.

Mr. EVINS. Mr. Shipley wants to know how many have been added to the rolls as a result of this act.

Mr. FARMER. Relatively few. I cannot give the exact number.

Mr. GLEASON. Could you give a horseback opinion?

Mr. FARMER. I can give you a horseback opinion. Less than a hundred a year. In the neighborhood of 50 to 60.

Mr. THOMAS. This was passed in 1962. Give it a little time.

Mr. FARMER. They are unusual.

Mr. DRIVER. Many added are death cases. You are adding the dependent.

Mr. OSTERTAG. Do you mean to say that is already a part of the law?

Mr. GLEASON. Since 1924.

Mr. OSTERTAG. A man is compensated for a disability subsequent to service if he has a disability which is the result of some negligence?

Mr. GLEASON. Ever since 1924, the same as if you went to a private hospital and it happened, you would sue the hospital.

Mr. OSTERTAG. You would sue the hospital?

Mr. GLEASON. And get compensated.

Mr. OSTERTAG. There is a difference between a suit and a settlement and payment and establishing service connection for compensation and payments indefinitely.

Mr. DRIVER. Until a year or two ago the man could go to court and collect under the Tort Claims Act, and on top of that draw compensation. This change provides if he gets a lump-sum award as a result of court action, he does not draw compensation until the amount of compensation he would get would equal the amount of the lump sum.

NUMBER OF MALPRACTICE CLAIMS

Mr. THOMAS. How many malpractice cases have you had throughout the system in the last 5 years?

Mr. FABLE. I have some figures.

Mr. THOMAS. Dr. Wise, do you have the figures?

Mr. WISE. No, sir.

Mr. DRIVER. The General Counsel has them.

Mr. FABLE. Mr. Chairman, if I may, could I just augment the answer a little bit? In 1958 there were 71 of those cases which were against the Federal Government. In 1959 there were 94. In 1960 there were 104. In 1961 there were 111. In 1962 there were 141. In 1963 there were 147.

Mr. EVINS. Does not speak well for your medical service.

Mr. FABLE. I have not completed my answer yet. As of January 31, 1964, there was a figure of 157. This was not the number of malpractice cases against the Veterans Administration but the total malpractice cases against the Federal Government. Now here are the figures against the VA.

Mr. EVINS. This is for malpractice?

Mr. FABLE. Yes, sir.

Mr. EVINS. I still say it does not speak well for the medical service.

Mr. FABLE. These are Government-wide, overall figures from the Department of Justice.

Mr. THOMAS. That is general throughout the Government?

Mr. FABLE. Yes. That is Air Force, Department of Health, Education, and Welfare, Army, Navy. At a time when there were 111 throughout the United States, against the United States, there were 49 cases against the Veterans Administration.

Mr. THOMAS. It's a little too high percentage, is it not?

Mr. FABLE. At a time when there were 157 against the United States, there were 64 against the Veterans Administration, which shows we are constantly getting less and less on a percentage basis and we probably also have a fewer number based on patient-days.

Mr. THOMAS. What do you mean, less and less? Your percentage goes up each year.

Mr. GLEASON. The percentage is going down.

Mr. EVINS. The number of overall cases is up but the number for the VA is down.

Mr. THOMAS. The actual number of cases for the VA is going up.

Mr. GLEASON. We are treating more cases.

Mr. DRIVER. The exposure is higher because of more patients treated.

Mr. FABLE. Two years ago, it was 49 out of 111, which is about 45 percent and today 64 out of 157 which is only 40 percent.

Mr. JONAS. The total number is going up but the percentage is going down?

COST OF MALPRACTICE CLAIMS

Mr. THOMAS. What is the average cost in one of those cases?

Mr. FABLE. An article, in the May issue of the Reader's Digest, says that malpractice litigation has become at least a $50 million annual business. A single California attorney boasts of having separated doctors or their insurers from over $8 million.

Mr. THOMAS. How much did he say he got?

Mr. FABLE. It did not say how much he got, but there was $8 million overall. Since 1950, jury awards in such cases have trebled. Now as far as the VA is concerned, we have been consistently, within the past 2 or 3 years, running in figures of around 62 to 68 suits pending at a time. During the past 3 years we settled several suits—when I say "we," I mean the Department of Justice. In 1961 they compromised nine. In 1962 they compromised seven. In 1963 they compromised 17.

Mr. THOMAS. What did they cost?

Mr. FABLE. The seven in 1962 cost $37,000. The 17 in 1963 cost $358,500.

Mr. THOMAS. The price is going up.

Mr. FABLE. We had one settlement of $150,000.

Dr. DRIVER. It depends on what happened.

Mr. OSTERTAG. Who does the work, the Justice Department or the Veterans Administration?

Mr. THOMAS. These are settlement cases by mutual consent. Do you have figures of what the jury has been awarding?

Mr. FABLE. Only two judgments for the plaintiff in 1961 and 1962. I think I have the figures in my hip pocket some place.

Mr. THOMAS. I will bet a horse he has.

Mr. FABLE. I believe one was $7,500. The other was $2,000. Of course the judge is the jury in these cases.

Mr. THOMAS. We had better go to the jury all the time, then.

Mr. FABLE. As a good defense attorney, you know you only go to a jury when——

Mr. THOMAS. What was the nature of the case where you settled for $150,000?

Mr. FABLE. That was one where a man's spinal cord was severed. There was a judgment against the United States for $200,000. The case was appealed.

Mr. THOMAS. That was not a Veterans' case, was it?

Mr. FABLE. Yes, sir.

Mr. THOMAS. That was under the old statute where they sued the Government?

Mr. FABLE. They can still do it today, sir. Plaintiff sued for $500,000, alleging paralysis followed a cervical laminectomy operation. The evidence and testimony at trial was conflicting and injurious to defense of the suit. The cumulative picture developed during the trial indicated that a leakage——

Mr. THOMAS. Where is that hospital located where the operation was performed?

Mr. FABLE. Hines, Ill. The cumulative picture developed during trial indicated that leakage and accumulation of blood at the operative site gradually produced a paralysis first detected in early morning, with relief measures in midafternoon, but not before irreversible paralysis ensued. Judgment was entered for $200,000. The Government took an appeal which was subsequently compromised at $150,000.

Mr. THOMAS. Judge Fable, you have been very helpful. We give you A plus.

Mr. FABLE. Thank you.

BOARD OF VETERANS' APPEALS

Mr. THOMAS. We will put page 5–20 in the record.

(The page follows:)

BOARD OF VETERANS' APPEALS, $2,837,000

Summary of requirements

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	333	305	262	−43
Personnel compensation	$2,853,904	$2,838,400	$2,574,900	−$263,500
Personnel benefits	210,461	209,000	189,000	−20,000
Subtotal	3,064,365	3,047,400	2,763,900	−283,500
Travel and transportation of persons	11,350	13,300	17,700	−4,400
Transportation of things	3,608	2,000	2,000	
Other services	8,614	13,400	14,400	+1,000
Supplies & materials	4,393	6,700	6,000	−700
Equipment	6,104	8,200	33,000	+24,800
Total cost	3,098,434	3,091,000	2,837,000	−254,000

Mr. THOMAS. You have 262 people, a reduction of 43 against 305 last year. This is average employment again. You show a reduction overall of $254,000 this year against last year.

Mr. EVINS. Equipment and travel are up.

Mr. THOMAS. You have two little pluses, one on "Other services," $1,000, and "Travel" you go from $13,300 up to $17,700. What did the pay act cost you, Judge?

Mr. STANCIL. The average salary increased about $500 per employee. Most of it is pay act.

Mr. THOMAS. You have a minus $263,500 in your personnel compensation.

Mr. STANCIL. A reduction in personnel compensation.

Mr. THOMAS. What did the pay act cost you? You are keeping 262 people. What is your pay act cost for those?

Mr. STANCIL. The average base salary, sir, is $9,649.

Mr. THOMAS. About 2 percent of your payroll?

Mr. STANCIL. It is closer to 5 percent, sir.

APPEALS CASELOAD

Mr. EVINS. I made a little observation here. Under "Mission," you estimate for fiscal 1965 a 22,000 caseload, which is considerably

below the trend in recent years. That is on page 5–22. On the next page, 5–23, you show an increase.

Mr. STANCIL. Yes, sir.

Mr. EVINS. From 18,000 to 22,000, a 4,000 increase, which is a little inconsistent.

Mr. STANCIL. Not when it is explained this way. Public Law 87–666, which the Administrator referred to in his opening statement, became effective January 1, 1963, in the middle of fiscal year 1963. Before fiscal 1963 the caseload had been running from 36,000 to 39,000 cases per year. In fiscal year 1963, when this new law came into being, most of that 24,000 you see there were received in the first half of the fiscal year. Only a minor portion represents appeals filed after January 1, 1963.

Mr. EVINS. You do not have as many appeals since you give them the statement of the case?

Mr. GLEASON. That is right.

Mr. EVINS. You say 1965 is up 4,000 over 1964.

Mr. STANCIL. That is right. The statement of the case gives the veteran a great deal more notice of what has been done, what the facts are; what the law is; and what the reasoning is for the action in the regional office. A certain number of them accept that and drop out. An additional number are paid in the field office without coming to the board. The sum total of the two add up to the reduction in our caseload.

Mr. EVINS. Did you not testify on the bill that it would require more work on the part of the VA if the bill was enacted into law because of having to write a separate opinion on every case for everybody?

Mr. STANCIL. Only those who initiate an appeal get a statement of the case. Preparing the statements is more workload on the field office.

Mr. EVINS. More work in the field and more cases, but your statement says the trend is down.

Mr. GLEASON. It is down for the Board.

Mr. STANCIL. It is easy to explain this 18,000 being lower than the 22,000.

Mr. THOMAS. Put pages 22, 23, and 24 in the record.

(The pages follow:)

MISSION

The Board of Veterans' Appeals is a statutory Board created in 1933. Its authority is now defined in title 38, U.S.C., chapter 71. The major objective is to equitably decide appeals under all laws administered by the VA, with sympathetic understanding and as expeditiously as possible consistent with quality, in order to grant all benefits to which veterans and their dependents are entitled. The decisions of the Board are final except as to cases involving insurance contracts (1 percent of the cases decided) where suit may be brought into Federal courts. We estimate our workload for fiscal year 1965 at 22,000 cases, which is considerably below the trend for receipts in recent years. This decline in appealed cases is expected because of the liberalizing effects of laws governing entitlement to benefits for aging veterans and to Public Law 87–666, Statement of Case, which was enacted for the purpose of improving due process of law in the adjudication and appellate process. Many of the decisions entered in these cases involve multiple issues and include contesting claims by two or more claimants.

Distribution of average employment

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Office of Chairman	9	8	8	
Appellate Service I	87	84	74	−10
Appellate Service II	85	76	65	−11
Administrative Service	152	137	115	−22
Total	333	305	262	−43

STAFFING

Average employment level of 262 is required for 1965, and will enable the Board to render appellate decisions of high quality in a timely manner in volume approximating the anticipated workload. Personnel requirements for accomplishing the Board's mission are determined by use of work measurement techniques and principles. Estimates for measured activities are developed by applying work performance standards to anticipated workloads. Staffing requirements for planning, program direction, and supervision, as well as overall personnel in the limited nonmeasurable areas, are dictated by experience.

The steadily decreasing employment of 333, 305, and 262 for 1963, 1964, and 1965, respectively, is attributable to: increased proficiency in the conduct of the Board's mission; downward trend in appellate workload, primarily due to Public Law 87–666.

The staffing is calculated to be the minimum for the proper disposition of projected workloads.

Summary of workload

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate
Total, case receipts	24,435	18,000	22,000
Disability benefits	20,889	15,334	18,700
Death benefits	2,304	1,866	2,290
Insurance	305	200	230
Waivers and forfeitures	937	600	780

The workload is estimated to be 18,000 and 22,000 cases for 1964 and 1965, respectively, and has been determined by experience and judgment factors. While a decrease in number of cases is indicated, our studies show that this will be partially offset by an increase in the complexity and volume of records to be reviewed in the individual case, including the added duty of determining whether "statement of case" procedures accomplished the "due process" objective of Public Law 87–666.

This law, effective January 1, 1963, modifies appellate procedures at the original jurisdictional level by requiring that field offices furnish each appellant with a "statement of case" and allow a period up to 60 days for appellants to answer. This lengthening of processing time and resulting backlog in field offices created a one-time lag in appeals received in Washington, thus reducing receipts for fiscal year 1963. However, decisions were promulgated in 31,370 cases during fiscal year 1963 with a consequent reduction in the Board's docket, which was excessive.

The estimated workload for 1964 is also reduced because the lag in field office processing of appealed cases continued into fiscal year 1964, and because of the impact to date of Public Law 87–666, particularly as to appealed cases closed by field offices for the appellant's failure to respond to the statement of the case. During this interim period in which the Board's workload is slowly building to its new normal level, some of the Board's professional and administrative personnel have been detailed to assist in working off the increased field office workload and thus bring about a normal appellate program at an earlier date.

The estimated workload for 1965 assumes that field offices will have achieved currency in their operations by the beginning of 1965, thus permitting a more nearly stable and normal workload to flow to the Board in Washington.

Mr. THOMAS. Let us see if this helps the discussion. [Reading]:

This law, effective January 1, 1963, modifies appellate procedures at the original jurisdictional level by requiring that field offices furnish each appellant with a "statement of case" and allow a period up to 60 days for appellants to answer. This lengthening of processing time and resulting backlog in field offices created a one-time lag in appeals received in Washington, thus reducing receipts for fiscal year 1963. However, decisions were promulgated in 31,370 cases during fiscal year 1963 with a consequent reduction in the Board's docket, which was excessive.

Mr. Evins points out to you that your workload which you set out in page 5–23 is estimated to increase from 18,000 in 1964 to 22,000 in 1965. Maybe this sentence that I just read explains that reduction. Is this the purpose of the sentence?

Mr. STANCIL. Yes, sir; to explain the reduction in fiscal 1963, and that lag continued into the first half of fiscal 1964.

Mr. EVINS. No further questions.

Mr. THOMAS. Does that explain it?

APPEALS BOARD TRAVEL COSTS

Mr. EVINS. On page 5–25 you state:

The increased cost for fiscal year 1965 over 1964 is attributable to increased fares for traveling sections of Board due to more miles traveled and for additional visits by a field appeals representative to field stations.

Do you send your men out in the field to write the statement of the case?

Mr. STANCIL. No, sir. We maintain a schedule of sending a section of the Board to each field office to conduct hearings approximately once each 2 years. It so happens that in fiscal year 1965 the schedule calls for the more distant offices, which will mean a little more travel. Also, while we are as far away as Texas or California, it makes sense to cover as many offices as you can while you are there, leaving them out a few days longer, rather than having the added expense of sending them out, again.

STATEMENT OF THE CASE

Mr. THOMAS. Let us go to the statement of the case. What do you mean by that terminology?

Mr. BRICKFIELD. Mr. Chairman, before you ever get to the appellate stage, you have the statement of the case. The statement of the case——

Mr. THOMAS. In other words, that is prepared by the local regional office?

Mr. BRICKFIELD. That is right.

Mr. THOMAS. We find you are not entitled to this or that and give the opinion. What is the statement of the case?

Mr. STANCIL. I would like to clarify one point. The case is in the appellate stage but not in the Board of Veterans' Appeals. The appellate process is initiated by the claimant expressing disagreement with the adjudication action.

Mr. THOMAS. Who files the statement of the case?

Mr. BRICKFIELD. If a veteran makes a claim for pension or compensation and the regional office denies it, he then has a year to submit a notice of disagreement to us. The minute he gives us this notice of disagreement, we prepare a statement of the case.

Mr. THOMAS. Is that in the field?

Mr. BRICKFIELD. This is in the field office.

Mr. THOMAS. What does that statement of the case contain?

Mr. BRICKFIELD. The statement of the case contains a chronology of the pertinent facts—everything that happened to the veteran. It sets out all the facts. Then it follows with a statement of the law. Then follows our decision. Then follows the reasons underlying our decision. This is sent to the claimant.

Mr. THOMAS. What is sent to the claimant when his claim is disallowed?

Mr. EVINS. A letter.

Mr. BRICKFIELD. Just a letter.

Mr. THOMAS. Saying the case is disallowed. This sets out the reasons?

Mr. BRICKFIELD. Yes, sir.

Mr. THOMAS. Plus your decision?

Mr. BRICKFIELD. That is right.

EFFECTS OF STATEMENT OF CASE REQUIREMENTS

Mr. THOMAS. It makes sense. You think it has cut down these cases from 31,000 in 1963 to about 22,000 in 1965 by following that procedure?

Mr. BRICKFIELD. We believe so because we give the veteran the full explanation for our action.

Mr. THOMAS. Do you show any increase in your administrative cost either in the field or in the Board?

Mr. BRICKFIELD. Yes, there has been a shift of some of the workload from the Board of Veterans Appeals to our field offices.

Mr. THOMAS. Where is that set out?

Mr. BRICKFIELD. This would be in "Compensation and pensions," and it would be set out on page 8–39.

Mr. THOMAS. General operating expense?

Mr. BRICKFIELD. Yes, sir. You will see the summary of major workload. The last item says "Notices of Disagreement." This is the statement of the case. We estimate 36,000 statements, which we will prepare during fiscal year 1965.

Mr. THOMAS. This is reflected in your $839,000 increase in compensation?

Mr. BRICKFIELD. Yes, sir.

Mr. THOMAS. You only have 10 new jobs.

Mr. BRICKFIELD. That is right.

Mr. THOMAS. What part of that $839,000 is for "Pay Act" and "Other objects," and what part of it is for the 10 new jobs? What are these people, 12's, 13's, or what?

Mr. BRICKFIELD. They are 11 and 12, Mr. Thomas. We have a total of 121 people who work on these statements of the case.

Mr. THOMAS. About an average of two in each of your regional offices average?

Mr. BRICKFIELD. That is about right although we do not allocate it that way. You see the 36,000 cases. I think there will be about 60 percent of that 36,000 that will go up on appeal.

Mr. EVINS. As a result of this new law and shifting of the workload from the Board of Appeals to your regional offices, how many Boards of Appeal have you received? How many personnel in the central office field section have you been able to reduce?

Mr. STANCIL. The reduction in the Board of Appeals in numbers of people is 43, as set out in the average employment. Number of sections, we did have 14, we now have 12.

Speaking of shifting the work to the field, I think that this may be a little oversimplification. Additional work is created in the field in handling these cases and a smaller volume reaches the Board of Veterans Appeals. In that sense only, work has been shifted.

Mr. THOMAS. You show an increase in "Compensation and pensions." It has gone up about $400,000.

Mr. OSTERTAG. What this does is it reduced your number of appeals.

Mr. STANCIL. The number that reach the board; yes, sir. We had not quite finished the appellate process. Once the statement of the case is released, the veteran has the opportunity to answer it. If he fails to respond within a specified number of days, the appeal is dropped by the wayside with no further action.

Mr. OSTERTAG. Mr. Chairman.

Mr. THOMAS. Mr. Ostertag.

APPEAL PROCEDURE

Mr. OSTERTAG. It might be well if we had a clearer understanding as to this 60-day limitation in which a veteran has a right to appeal. Is it to appeal or to get a review of his case?

Mr. DRIVER. He has a year, basically.

Mr. BRICKFIELD. The law contains two limitations. One is he has a 60-day notice to answer the statement of the case. Yet at the same time he can initiate appeal any time within 1 year from the——

Mr. OSTERTAG. Is that not rather confusing? You say he has a 60-day limitation in which to appeal and yet under the law he has 1 year in which to actually appeal.

Mr. STANCIL. May I clarify that?

Mr. OSTERTAG. I think it should be clarified.

Mr. STANCIL. Under the law, prior to this new law, a man was allowed 1 year within which to appeal. He still has the 1 year within which to initiate an appeal. An appeal has become a two-stage process. He initiates his appeal by filing a notice of disagreement. He still has the 1 year he has always had to do that. Then he is furnished his statement of the case, and he has a 60-day period within which to answer the statement of the case.

Mr. OSTERTAG. Is the 60-day limitation based on——

Mr. STANCIL. To answer the statement of the case. It can be over and above the 1 year.

Mr. OSTERTAG. His right to enter a disagreement?

Mr. STANCIL. No, sir; the 60-day provision in the law relates only to answering the statement of the case.

Mr. DRIVER. He has already filed his appeal at this point, you see.

Mr. OSTERTAG. Is the veteran advised of not only his rights but the existence of this limitation?

Mr. STANCIL. In the initial letter of adjudication that goes to him, he is notified that if he is not satisfied, he has 1 year within which to initiate an appeal, and he is advised if he wishes to initiate an appeal, to let the field office know. When he sends that in, he is sent a statement of the case, and he is given additional instruction to answer within 60 days or his case will be closed for failure to respond.

I think this is where a little confusion comes in—for instance, take a man who initiates his appeal early in the year and gets his statement of the case promptly. Then he is given 60 days to answer. He still has not used up his original 1 year period. In reality, he has the 60 days or the balance of the original 1 year period, whichever is longer, to answer the statement of the case.

Mr. JONAS. Mr. Chairman.

Mr. THOMAS. Mr. Jonas.

APPEALS ABANDONED AFTER STATEMENT OF THE CASE

Mr. JONAS. Do you have any statistics that will show how many of these appeals are abandoned after receipt of the statement of the case.

Mr. STANCIL. Yes, sir; we have experience thus far this calendar year. It was not until toward the end of calendar 1963 that things began to stabilize. Thus far the experience is that 34 percent in calendar year 1963 have failed to respond to the statement of the case and thus had their cases closed.

The biggest part of those, however, are subject to reactivation if they come back in within their original year, and that 1-year period is still running in a large number.

Mr. JONAS. Even if they let that expire, they can reopen the case on new evidence and file another claim and start it all over again?

Mr. STANCIL. Yes, sir.

Mr. JONAS. You really do not know whether it has actually been abandoned.

Mr. STANCIL. Our budget is predicated here on the estimate that of the notices of disagreement initiated, approximately 55 percent of them will wind up with the Board of Veterans' Appeals. The rest will be either allowed locally at the field office level, thus withdrawing the appeal, or will be closed for failure to respond.

Mr. EVINS. Mr. Stancil, Mr. Jonas asked how many had been abandoned or rejected. I would like to ask the question: Percentagewise. how many are approved? What do your statistics show of cases filed on appeal?

Mr. STANCIL. At the field office level?

Mr. EVINS. Both levels.

Mr. STANCIL. It is ranging around 15.6 percent, at the field office level, withdrawn for allowance of benefits sought on appeal. Then for the Board of Veterans' Appeals, the figure is 16.69 percent for the last quarter. 17 percent for the quarter before that.

Mr. JONAS. Reversed?

Mr. STANCIL. Yes, the ones that reached the Board of Veterans' Appeals.

Mr. THOMAS. About 16 or 17 percent in the Board. That means about 30 or 31 percent of the total number of cases received some——

Mr. STANCIL. Not exactly, these percentages relate to different totals. My percentage of 16 to 17 percent relates to the number that reach the Board of Veterans' Appeals.

EFFECTS OF STATEMENT OF THE CASE

Mr. THOMAS. How has the statement of the case affected your decisions?

Mr. STANCIL. How has the statement of the case affected the Board?

Mr. THOMAS. Yes, applying to the Board.

Mr. STANCIL. Overall, it is a great improvement in the adjudication process.

Mr. THOMAS. What about the Board?

Mr. STANCIL. In the Board of Veterans' Appeals it complicates our work but has resulted in better decisions. The veterans who are before us, instead of merely asking for a review of the action taken, are in a position to argue facts or law. They know what transpired and what is in their file. The issues are sharpened and evidence is better developed.

Mr. THOMAS. Before the law, you knew about how many cases were filed with you. Now you set out those figures here. It was 31,000 or 32,000 and now it is 22,000. Is that the best information you can get as to the effectiveness of it? If it is, it is pretty good in itself. Is there any other information that you can put your finger on that shows it has slowed down appeals or satisfied them, or what do you have other than this broad general picture?

Mr. STANCIL. The statistical picture is the best. We have the subjective comments of service organizations throughout the country, the reactions of Members of Congress and the reactions of veterans in general, but the statistical picture, I think, tells the story.

Mr. THOMAS. It is bound to.

Mr. STANCIL. Yes, sir.

Mr. THOMAS. Heretofore you have been receiving 33,000 appeals a year and now it is cut to 22,000. That is bound to be it.

Mr. OSTERTAG. Has the reaction been favorable?

Mr. STANCIL. Yes, sir.

Mr. OSTERTAG. I would think it would be.

Mr. STANCIL. There is occasional concern expressed about the cases closed for failure to respond. Some of the service organizations are wondering if this number is a little large and whether there are good cases in the group.

Mr. THOMAS. Certainly this new statement of the case figures out as cost to you for fiscal year 1965 about $400,000 more than it has been costing you heretofore.

Mr. STANCIL. It will cost me a quarter million dollars less.

Mr. THOMAS. I am talking about the taxpayer. It cost the Compensation and Pension Section $650,000 after deduction of the increase in pay. That makes it come out about $400,000 or $450,000.

Mr. STANCIL. The law requires and results in better service to veterans. There is additional work to be done.

Mr. THOMAS. Of course, you cannot do the work for nothing, but it seems to me it saves everybody time and saves the taxpayers money, too.

Mr. JONAS. Mr. Chairman.

Mr. THOMAS. Mr. Jonas.

Mr. JONAS. You heard the story of the justice of the peace who for 20 years never lost a case on appeal. Some smart lawyer talked him into writing opinions, and he was reversed in every one thereafter. You do not think you are having that same experience?

Mr. STANCIL. No, sir.

Mr. THOMAS. That old justice of the peace never lost a case because he never gave reasons.

Mr. JONAS. After he started giving reasons, he was never sustained.

Mr. OSTERTAG. I wanted to comment on this whole process of appeals and the general system. On the face of it, it seems to me, whether it is a saving of money or not, it is a means toward giving the veteran a better break or better opportunity to present his case. I think that is important. I think it is essential.

There may be this time factor which may work to his disadvantage. But, nevertheless, I have experienced myself in certain of these cases where the whole case is documented, we know what we are up against when we go before the Appeals Board. That is important.

Mr. THOMAS. We are all agreed it is worth the money.

Mr. STANCIL. Even from the point of view of money, you will find, on a cost-per-case basis, the Board of Veterans' Appeals operates more economically than any quasi-judicial body in this city.

Mr. THOMAS. You and your associates do a magnificent job. We are proud of you.

OFFICE OF PERSONNEL

Gentlemen, let us look at the Office of Personnel Administration. Insert pages 5–27 and 5–29.

(The pages follow:)

ASSISTANT ADMINISTRATOR FOR PERSONNEL, $1,141,200

Summary of requirements

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	102	102	101	−1
Personnel compensation	$893,272	$974,242	$1,016,196	+$41,954
Personnel benefits	65,942	73,068	76,165	+3,097
Subtotal	959,214	1,047,310	1,092,361	+45,051
Travel and transportation of persons	26,947	31,000	31,400	+400
Transportation of things	1,013	2,100	2,100	
Other services	11,743	8,490	11,739	+3,249
Supplies and materials	7,606	2,600	2,600	
Equipment	1,519	500	1,000	+500
Total cost	1,008,042	1,092,000	1,141,200	+49,200

The Assistant Administrator for Personnel advises and assists the Administrator in all personnel policy matters. Develops agencywide personnel objectives and policies which will enable VA to obtain, develop, and retain the best qualified personnel. Furnishes advice and technical guidance to key agency and department officials on the application of VA policies and of Civil Service Commission regulations.

Average employment is being held to one less than the fiscal year 1964 level although increased workload is anticipated during the period of initial application of automatic data processing to personnel activities. An increase in manpower required to handle employee-management relationships, particularly in the areas of contract negotiation, grievances, and appeals, is also expected. Increased emphasis on the development of employees' skills and talents to meet changing requirements and more intensive and coordinated recruitment of technical and professional personnel will also require greater productivity from the staff.

Distribution of average employment

	1963 actual	1964 estimated	1965 estimated
Office of the Assistant Administrator for Personnel	6	5	5
Career Development Service	17	17	16
Classification and Pay Administration Service	9	9	9
Evaluation and Reporting Service	12	13	13
Staffing and Relations Service	18	18	18
Central Office Personnel Service	40	40	40
Total	102	102	101

Mr. THOMAS. You are asking for $1,141,200 this year and you have 101 jobs against 102 last year, a decrease of 1. Personnel compensation goes up $41,954. Is that all pay act?

Mr. MONK. Basically.

Mr. THOMAS. What about your "Other services"? You show a little increase of $3,249. "Other services" are where?

Mr. MONK. Page 5–33.

Mr. THOMAS. "Transportation of things" is up $2,000, is it?

Mr. GLEASON. No, sir, it is the same.

MAINTENANCE OF OFFICE EQUIPMENT

Mr. THOMAS. What about our maintenance shops? We have three now, one on the Pacific coast, one at Hines, and where is the other?

Mr. COOK. These are for office machines.

Mr. THOMAS. Hines can fix almost anything. They can fix a dentist's drilling machine. They can do anything. You have a shop that does a little furniture repair; is that right?

Mr. COOK. Yes, sir.

Mr. THOMAS. Where is that?

Mr. COOK. Hines also. These are essentially office machines and typewriters.

Mr. THOMAS. You do this by contract. Why did this item jump this year? What are you going to do this year that you did not do last year with them? There is cost of recruiting, more travel. That is it, is it not?

Mr. GLEASON. Employee travel is only up $400.

Mr. THOMAS. I know, but the cost of the seminars comes pretty high. A seminar is an advanced study group, is it not?

Mr. UNDERWOOD. Yes. We have our regular National Management Institute, which is the capstone of our total management development program. We wish to put in an additional one in the field for this next year.

Mr. THOMAS. Who are you going to send from your shop? You are supposed to be taking care of personnel records. What management people are you going to send out of your shop?

Mr. UNDERWOOD. The people that we have who are at the head of the management development program. Dr. Manes Specter is one, magna cum laude from Harvard.

Mr. THOMAS. What are you doing with him over there? These doctors and lawyers will be getting all over you with a cum laude Ph. D.

Mr. UNDERWOOD. That is the kind of people we like to have heading up that kind of program.

Mr. THOMAS. It is hard to get them. What seminars is he going to? He is already educated. Why reeducate him?

Mr. UNDERWOOD. It is a rather continuous process. We hold some here in Washington. We have the 16th one starting this morning for managers, assistant managers, and chief of staff. We had hoped to do a little bit more at the division and service level.

MANAGEMENT AND EVALUATION

Mr. THOMAS. Let us look at "Management and Evaluation." We will put pages 35 and 36 in the record.

(The pages follow:)

ASSISTANT ADMINISTRATOR FOR MANAGEMENT AND EVALUATION, $2,112,500

Summary of requirements

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	161	163	160	−3
Personnel compensation	$1,573,560	$1,688,025	$1,777,935	+$89,910
Personnel benefits	116,379	126,079	133,150	+7,071
Subtotal	1,689,939	1,814,104	1,911,085	+96,981
Travel and transportation of persons	145,442	179,045	166,910	−12,135
Transportation of things	10,874	10,881	10,450	−431
Other services	18,299	19,000	17,775	−1,225
Supplies and materials	8,138	2,470	2,470	
Equipment	34,573	2,500	3,810	+1,310
Total cost	1,907,265	2,028,000	2,112,500	+84,500

Assistant administrator for management and evaluation

Title	Grade	1963 actual		1964 estimate		1965 increase/decrease	1965 estimate	
		Number	Amount	Number	Amount		Number	Amount
Assistant Administrator for Management and Evaluation	GS-17			1	$18,512		1	$19,011
Do	GS-16	1	$17,514					
Director, Manpower Utilization Service	GS-16	1	17,014	1	17,514		1	18,013
Director of Service	GS-15	4	64,969	5	84,035		5	86,204
Staff assistants	GS-15	2	31,050	2	32,905		2	32,905
Emergency planning officer	GS-15	1	16,973	1	18,762		1	18,762
Administrative officer	GS-15	1	15,538	1	17,222		1	17,222
Supervisory security officer	GS-14	1	14,560					
Special investigator	GS-14			1	14,082		1	14,082
Staff assistant	GS-14	1	13,707	1	13,624		1	14,082
Field representatives	GS-14	5	67,625	5	73,528		5	74,429
Assistant Service Director	GS-14	1	14,123	1	15,434		1	15,434
Chief of Division	GS-14	4	55,187	6	86,074		6	88,110
Management analysts	GS-14	5	68,900	6	88,515		6	89,185
Do	GS-13	44	522,925	48	594,471	−1	47	596,900
Do	GS-12	21	209,280	21	209,335		21	215,468
Do	GS-11	22	187,820	19	167,409		19	175,338
Do	GS-10	1	8,278					
Do	GS-9	6	44,083	3	23,192		3	23,570
Do	GS-8	1	7,134	2	14,476		2	14,684
Do	GS-7	15	97,896	13	90,202		13	91,966
Do	GS-6	12	69,202	12	71,269	+1	13	78,873
Do	GS-5	9	45,709	11	58,506	+1	12	68,415
Do	GS-4	4	17,700	3	13,790	−1	2	9,422
Do	GS-3	1	3,931	1	4,514		1	4,514
Do	GS-2	1	3,890					
Total, permanent		164	1,615,008	164	1,727,371		164	1,766,582
Deduct:								
Lapses		3	9,382	1	9,776	−3	4	9,814
Net savings due to lower pay scale for part of year			40,125		45,225			
Other personnel compensation:								
Terminal leave			7,577		2,791			14,410
Overtime and holiday pay			482					
Regular pay above 52-week base					12,864			6,757
Net permanent (average employment, personnel compensation)		161	1,573,560	163	1,688,025	−3	160	1,777,935
Personnel benefits			116,379		126,079			133,150
Average employment, personal services		161	1,689,939	163	1,814,104	−3	160	1,911,085

Mr. THOMAS. Who has this?

Mr. MONK. Mr. Turner.

Mr. THOMAS. What about your police force? You have one 17, one 16, ten 15's, the Director of Services at 15, a staff assistant at 15, emergency planning officer at 15, administrative officer at 15, supervisory security officer at 14, special investigator at 14. What is the main duty of these 164 people you have here?

Mr. TURNER. To put it as short as possible, sir, it is our job to keep the Administrator advised of how good a job the agency is doing through such programs as of investigation and internal audit.

Mr. THOMAS. This is the eyes and the ears of the Administrator. What are some of the shortcomings, if any, you have discovered this year? What are some of your main complaints that you have to look into? Is it mostly complaints arising from your hospitals?

Mr. TURNER. We have a lot in the hospital program, but we have some administrative problems, too. The Rapidex item is one of them.

INVESTIGATION OF X-RAY EQUIPMENT PURCHASES

Mr. THOMAS. How did the Rapidex thing turn out?

Mr. TURNER. We are still investigating this, sir.

Mr. THOMAS. How long have you been investigating that?

Mr. TURNER. Since late last year.

Mr. THOMAS. Late last year. How many months would you call that?

Mr. TURNER. Three or four.

Mr. THOMAS. Three or four months. With 164 people, you should wrap that up in 2 or 3 weeks. Why so long? What does it look like so far?

Mr. TURNER. We still have not finished, sir, but the original supplier is out of business.

Mr. THOMAS. We are out the money and you have not finished. It looks to me as though you were finished before you got started.

Mr. TURNER. There is still some question of that. We are now in the process of trying to find out what went wrong internally.

Mr. THOMAS. We have been bragging on you, but we are going to have to withdraw that bragging if you are still investigating and the company has gone defunct. What else is there? Do you think some moral turpitude was involved?

Mr. TURNER. I think the company was defunct before we ever started.

Mr. THOMAS. Who else bought these machines besides the Veterans Administration?

Mr. TURNER. Other Government agencies.

Mr. GLEASON. A number of private hospitals, one in Washington was Georgetown University Hospital. They had one.

Mr. THOMAS. You should have that information if he has been devoting 3 months to it. Who else bought them? How many did they sell? How long has the company been in operation?

Mr. TURNER. The company went into operation about the same time that they began to build and sell this equipment. I have forgotten the exact year.

Mr. THOMAS. Is this the same crowd that brought pills out to Hines one week and the next week they went from $100 down to $5. It had about a 95-percent drop in price. Is this the same group again? This was not Hines but at Somerville.

Mr. GLEASON. This is supply.

Mr. THOMAS. How do we get hooked on this? Why do we have to break our necks to be the first to buy some untested medicine? Is it because Uncle Sam has the money and a slick salesman comes by and we purchase the item?

Mr. TURNER. The doctors could answer better, but in this case it looks like we were searching for a quick way to develop these X-ray films. Up to the time Rapidex came on the scene, this had been a manual process, sometimes quite long.

Mr. THOMAS. We are all familiar with that. We know it is not your baby. Tell us about it, Doctor. Why do we have to be the first ones to get hung? Is there not some way of taking these pills on trial or buying some of this equipment on trial? You ought not to be the biggest suckers in all the world every year. Any time anybody gets hung in the VA, it goes back to the Medical Department. You are the first ones to buy a worthless pill. Now you are the first ones to get hung on some piece of equipment. Is there not some way you can protect yourselves, the Administration, and the taxpayers?

Dr. MCNINCH. I do not know the answer on this particular item of equipment. I know the developments in the medical field are coming so fast, and equipment becoming obsolescent, that someone who is faced with a problem requiring new equipment is apt to——

Mr. THOMAS. Is there not such a thing as sending out a piece of equipment or a new patented medicine to, say, let us try it out for 30 days? We used to do that kind of bargaining.

Dr. MCNINCH. The trial of medical drugs is a separate subject, there are many controls today. I cannot answer as to why this particular purchase was made.

Mr. THOMAS. What does the Office of the Administrator do in these things? What about you, Mr. Gleason and Brother Monk and Brother Driver? Do you look over these things when a department puts it up to you? Do you pay it any attention?

Mr. GLEASON. I would like to ask Dr. Zink if he would explain this Rapidex purchase insofar as he knows.

Mr. JONAS. We have never found anybody yet who admits he is responsible for this purchase. I want to hear from him.

Dr. ZINK. Our people a number of years ago scoured the market for someone to build a smaller piece of equipment that would process these films. Those that were on the market at that time ran from $24,000 to $30,000. Many of our small hospitals could not afford this type of equipment because of the workload.

At about this time the Rapidex came on the market with this item that cost about $12,000. This is what we were looking for. We did look at it carefully. We went around and talked to people who had been using it, including the Georgetown Hospital. They were very laudatory about the performance of the machine.

This is reasonable when you consider the fact that these machines did very well for 6 to 8 months before they broke down. Again comes

the point: How long do you wait if you have an item here that is an economy? If you wait for the newest model all the time, you go without the equipment, or else it is obsolete when you get it. We thought we had given this a reasonable look.

Mr. JONAS. Did you have any of them on trial at any of our 175 installations?

Dr. ZINK. Did we put any out on trial?

Mr. JONAS. Yes; did the company put any of them out on trial to the Veterans Administration to let them test it?

Dr. ZINK. They did not in this instance, but again normally a trial would run for anywhere from 45 to 60 days. If we had these machines, they would have performed very nicely even up to 6 or 8 months.

Mr. JONAS. If they were that good, what went wrong all of a sudden?

Dr. ZINK. We were hopeful that is all it would take, but as time went on it was not the case. The machines would not hold up. In answer to the other question, we frequently——

Mr. JONAS. What became of the company?

Mr. MONK. Out of existence.

Mr. JONAS. Did you put up any research and development money in addition to this purchase price?

Mr. MONK. No.

Mr. JONAS. How much money was involved?

Mr. GLEASON. $580,000, I believe.

Mr. JONAS. How many did that represent?

Mr. MONK. 52.

Mr. JONAS. Would it not have been smart to have bought one and tried it out a year?

Mr. MONK. In retrospect, yes, sir.

Mr. THOMAS. Hindsight is always better than foresight.

Dr. ZINK. We bought a small number and put them out. They worked well and we bought more.

Mr. THOMAS. How many did you buy the first time?

Dr. ZINK. Twenty.

Mr. THOMAS. How much did each cost?

Dr. ZINK. $11,500, each.

Mr. THOMAS. How long did you keep them before you bought any?

Dr. ZINK. A period of 4 or 5 months before the second buy.

Mr. THOMAS. All of a sudden—how many did you buy, all together?

Dr. ZINK. Fifty-two.

Mr. THOMAS. Is there any information in this budget on this?

Mr. MONK. No, sir.

Mr. THOMAS. Why was it not under hospitalization expense here? How long has it been since they folded up on you?

Mr. COOK. About a year.

Mr. THOMAS. How much longer do you need?

Mr. JONAS. The company had a patent on this machine?

Mr. COOK. Yes.

Mr. JONAS. Was this the only company in the field making machines of this nature?

Mr. COOK. The only one at this price.

Dr. ZINK. I think one more comment would be in order.

Mr. JONAS. I believe your trouble was you took the low bid but you did not take the low responsible bid. Was the company brand new?

Mr. MONK. The company was brand new.

Mr. JONAS. Just in the field?

Mr. MONK. Yes, sir.

Mr. THOMAS. Did somebody else make the same kind of machine?

Dr. ZINK. Yes, sir. But the other cost $30,000 compared to $12,000. Pickers X-Ray was tied in, a responsible firm. They had a service contract with them. Looking back, of course, it was a fiasco, but at the time it looked very reasonable.

Mr. SHIPLEY. How many machines did this company manufacture and sell?

Mr. COOK. The Air Force got one of them.

Mr. GLEASON. All services took some.

Mr. SHIPLEY. Do you know how many the Government got stuck with?

Mr. TURNER. No; we only know how many we bought.

Mr. SHIPLEY. How long was the company in operation?

Mr. TURNER. A little over 2 years.

Mr. THOMAS. You have an item in here—we will get into it in detail after a while—about $844,000 on equipment for medical expense. Is it part of that $8.5 million in here for these new machines?

Mr. MONK. No, sir.

Mr. THOMAS. They tell me, if I am correctly advised, that this machine in 30 or 40 seconds would develop this X-ray, go through all the chemical process, heating, drying, everything, against what was it, 10 minutes for the old method? Is that about right, Dr. Zink? What was it supposed to do that was so good?

Dr. ZINK. This automatically developed and processed into the finished dried product the film that otherwise you have to do manually.

Mr. THOMAS. How long did it take to do it? You fed it into this machine and it came out the finished product?

Dr. ZINK. About a 2-minute cycle in the machine.

Mr. THOMAS. Was it that long?

Dr. ZINK. Yes.

Mr. THOMAS. What was the old manual way of doing it? How long did it take?

Dr. ZINK. I do not know if I have the figure. It took quite a bit longer. If you had a dryer, the time was not too great. The thing it did was save the man's time.

Mr. THOMAS. It was a big time element because I heard people speak about it. It either cut down the time element to 1 or 2 minutes from 8 or 10 or 12 minutes.

Dr. ZINK. Probably 15 to 20 minutes.

Mr. THOMAS. After you manually dipped it into the chemical process, you had to let it dry 3 or 4 minutes.

Dr. ZINK. If you let it dry that way, it takes hours, but in a dryer it takes a few minutes.

Mr. THOMAS. That is a separate piece of equipment.

Dr. ZINK. Yes.

Mr. DRIVER. It looked like a wonder worker.

Mr. OSTERTAG. Is not the whole issue involved here one of accepting deliveries of units after you had discovered the deficiency of these

units and the malfunctioning of them. The GAO indicates that the waste of Government funds and adverse effects on patient care which resulted from the procurement of the unsatisfactory processes clearly demonstrated a need to strengthen the VA's procurement and contract administration policies and procedures. That, to my mind, is the nub of the whole issue.

Mr. THOMAS. What does he mean by procedures? It looks to me that the Medical Department ought to be able to say to these pharmaceutical houses or equipment houses, if you have something good, we are good customers for your product, let us use it 30 or 60 or 90 days and see how good it is. Is that not still done?

Mr. GLEASON. As Dr. Zink mentioned, if you had done this, even if you had had it for 4 or 5 months on a trial basis, it still would have proven itself in that period of time.

Mr. THOMAS. That is hard to buy. It is hard to believe the thing is going to fall to pieces overnight.

Mr. EVINS. Did the VA discover this or was it the GAO?

Mr. GLEASON. GAO discovered it.

Mr. DRIVER. The users knew but the Administrator did not know.

Mr. JONAS. I would think the fact that you could buy this machine, an brandnew one, put out by a brandnew company, at $12,000 when the nearest product competitive to it was $30,000 would have been a red flag.

Mr. GLEASON. Mr. Jonas, I might mention, sir, as I recall, once this happened and this company put the machine out for $11,500, the other companies in related industry put out a like machine for approximately the same price now. In other words, we might have lost some money directly by purchasing these, but now we have a new price base. It has brought it down. If this company had not put it out at that price, they never would have brought it down.

Mr. OSTERTAG. The report shows that VA records indicated that at the Somerville Depot they had already received complaints from 25 of the 28 field stations at which processors had been installed. Nevertheless, the VA accepted subsequent deliveries of and paid $98,890 for the remaining nine units. That is my point.

Mr. GLEASON. It is well taken.

Mr. THOMAS. They were on notice.

Mr. OSTERTAG. You said GAO discovered this. You discovered it yourself, according to this report.

Mr. GLEASON. This is true. In the field we had our complaints, and so on.

PROCUREMENT POLICIES AND PROCEDURES

Mr. DRIVER. This is something we are now looking at to see what has to be changed so that cannot happen.

Mr. OSTERTAG. What about this recommendation of the GAO of the need to strengthen your procurement and contract administration policies and procedures?

Mr. GLEASON. That is what Mr. Driver just meant by that.

Mr. DRIVER. That is what Mr. Turner is continuing to document, to make certain we plug up whatever loopholes there are.

Mr. GLEASON. This may take him another 2½ months to complete.

Mr. OSTERTAG. We are bound to make mistakes as long as we are human, but when we make mistakes and do nothing to correct them, there is no excuse. One of the outstanding or glaring charges here against the Veterans' Administration is that after you discovered these inequities or inefficiencies, you did not move to correct them yourselves.

Mr. DRIVER. We are doing this now. It is too late for that.

Mr. THOMAS. In the Office of the Administrator, you have how many people?

Mr. MONK. Fifty-six people.

Mr. THOMAS. Out of that crowd, somebody ought to stop it. Somebody in the Office of the Administrator should do that.

Who in the Administrator's Office looks over the Medical Department?

Mr. DRIVER. I do, sir. Under certain procedures that are in effect, Mr. Chairman, this would never come to the Office of the Administrator for approval. We would not get involved in it normally until something like this has occurred. The practice within the Administration is to make sure this does not happen and to guard against it from the standpoint of the Administrator's office and, as you know, the Office of Internal Audit makes periodic spot checks of VA operations.

Mr. THOMAS. You mean the Office of the Administrator does not keep any check at all on the various bureaus as to what they do with their money?

Mr. DRIVER. Yes; it does. We get regular reports from them.

Mr. THOMAS. That is contradictory. You said you did not know anything about it until you get the next external audit.

Mr. DRIVER. When I said something goes wrong——

Mr. THOMAS. We are asking you if, with 56 people in the Office of the Administrator, why you did not catch it.

Mr. DRIVER. Because under normal procedures, the catching of it would occur within the department, and unless the department had a report, the second something went wrong it would be most unusual anyone in the Administrator's office would find it routinely. It just would not happen.

Mr. THOMAS. Are you not on speaking terms with the various departments?

Mr. DRIVER. Yes, sir.

Mr. OSTERTAG. Would they report their mistakes?

Mr. MONK. They should.

Mr. DRIVER. I would expect they would.

Mr. MONK. Ordinarily the Administrator would have been alerted to a problem of this magnitude but in this case he was not.

Mr. DRIVER. Someone from his office would not normally find it as a result of this own activities.

Mr. THOMAS. How did you get onto this item?

Mr. TURNER. The GAO came to us. We heard about it.

Mr. THOMAS. With 56 people, you did not turn it up?

Mr. UNDERWOOD. I was at the other end of this in the field station at Pittsburgh and that was one of the first ones. It was not clear at the time. We got one at a time as our patient load was increasing.

Mr. THOMAS. We are talking about when you got those 12 or 15 machines. You were at that end, too?

Mr. UNDERWOOD. No, sir. I wanted to show how this became apparent at this station only after a period of time.

Mr. OSTERTAG. Are we to understand that if it had not been for the GAO, this situation would have gone on indefinitely?

Mr. GLEASON. Not indefinitely.

Mr. DRIVER. It had been suspended at that time.

Mr. THOMAS. Gentlemen, let us come back tomorrow morning at 10 o'clock.

We should finish the title of "General Administration" tomorrow in about an hour or an hour and a half and then we will go on to the other bureaus.

Thank you, gentlemen.

TUESDAY, FEBRUARY 11, 1964.

Mr. THOMAS. Gentlemen, will the committee please come to order?

It is nice to see you all healthy and hale this morning. When we adjourned yesterday before this mammoth snow—and we ought to have it for the record. We all got here on time. The snow is 7 inches, or 6, Mr. Evins?

Mr. EVINS. Eleven.

Mr. THOMAS. We were discussing a matter with brother Turner, were we not? Brother Turner, you have a lot of jobs here. Let's refer to page 5–37. (Reading:)

> The Assistant Administrator for Management and Evaluation formulates and recommends to the Administrator general policies and plans of agencywide application.

That is the only thing you have in common. From there we branch out [continuing reading]:

> in matters relating to internal audit, investigation, emergency planning and security, employment policy, manpower utilization, management analysis, and supply management.

You run the whole field, do you not? That is the first police chief I have ever seen with so much jurisdiction.

WORKLOADS—MANAGEMENT AND EVALUATION

Preliminary inquiries, 64, 75, 75, stations visited—we are referring to the years 1963, 1964, and 1965: 303, 270, and 270. That is installations, I guess.

Employment policy group, cases closed, 122, 130, and 130. What does all this mean? You say full investigation, 56, 80, 85. What is a full investigation? Here is a preliminary investigation. You have 73, 85, 85. Audits authorized and anticipated, field station audits, 8, 10, 10; State soldiers homes audits, 0, 1, and 3. Is that under your jurisdiction?

Mr. TURNER. Yes, sir.

Mr. THOMAS. Who has this home out here? General Hazelit is the head of it. That comes under the Army, doesn't it?

Mr. GLEASON. Yes, sir. That is not a State home.

Mr. THOMAS. You are auditing the accounts of your people who are in the State homes?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Central office audits, 0, 1, and 1. Special studies, 8, 5, and 5. This is hodgepodge jurisdiction. I do not know what the Administrator has in mind when he lumps all these divergent and sometimes overlapping items all under one jurisdiction.

Gentlemen, we will put 5–37 and 5–37a in the record.

(The pages follow:)

Summary of major workloads—management and evaluation

FIELD REPRESENTATIVES

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate
Preliminary inquiries	64	75	75
Station visits	303	270	270
EMPLOYMENT POLICY GROUP			
Cases closed	122	130	130
INVESTIGATION SERVICE			
Full investigations	56	80	85
Preliminary inquiries	73	85	85
INTERNAL AUDIT SERVICE			
Audits authorized and anticipated:			
Field station audits	8	10	10
State soldiers homes audits		1	3
Central office audits		1	1
Special studies	8	5	5
EMERGENCY PLANNING AND SECURITY SERVICE			
Security cases reviewed and adjudicated	822	800	800
SUPPLY MANAGEMENT SERVICE			
Special projects	6	4	3
Program evaluations	1	3	4
Staff studies	4	6	6
Compliance reviews	29	60	40
MANPOWER UTILIZATION SERVICE			
Projects authorized and anticipated	11	19	15
MANAGEMENT ANALYSIS SERVICE			
Records management actions completed	85	95	110
Forms management actions completed	856	880	880
Administrative issues processed	303	300	300
Projects and special assignments	41	31	35

EMPLOYMENT—MANAGEMENT AND EVALUATION

Mr. THOMAS. This is more workload. Look at jurisdiction over on 5-38. Here is your personnel. You list activities. Then you correlate personnel with the activities. This is the meat in the coconut. Field representatives are listed. What do you mean? You have 66 regional offices. You have 10 here. Where are these located in the field?

Mr. TURNER. These are in Atlanta, Boston, Chicago, Dallas, and San Francisco, Mr. Thomas.

Mr. THOMAS. Why do you pick those out from any other office?

Mr. TURNER. We spotted these people out primarily as eyes and ears, extensions of what we are trying to do in here and they travel to assigned territories through field stations and keep us advised of trouble spots.

Mr. THOMAS. You do not keep one up in New Jersey to test those pills up there, do you?

Mr. TURNER. We have one in Boston, sir.

Mr. THOMAS. That is not a procurement office in Boston.

In the Employment Policy Section you have four for each year. Really, you have got two big sections here. One is what we call investigative. Then you have your brain trusting section. That is split up into four or five sections.

Here is the Employment Policy Section. I don't know where that goes. Here is your investigative service. That is your big one. That is coupled with your internal audit. There are about 70 people out of your 160.

EMERGENCY PLANNING AND SECURITY SERVICE

Here is Emergency Planning and Security Service, six, seven, and seven. What do they do?

Mr. TURNER. Sir, they adjudicate cases under Executive Order 10450.

Mr. THOMAS. Emergency Planning and Security Service coordinates the policies, plans, and programs covering VA's assigned emergency preparedness functions, and administers VA's document and personnel security programs. You are getting into fallout shelters here, planning for the future bombing and all of that. What do those seven people do over there?

Mr. TURNER. No. 1, sir, they coordinate VA emergency planning.

Mr. THOMAS. What is that? What is there this year that you did not coordinate last year?

Mr. TURNER. For example, an Executive order was issued since last year which assigns the specific emergency planning functions to agencies.

Mr. THOMAS. Let's see that Executive order. That must be a very interesting document. Let's see what the duties are. Do you have a copy of that?

Mr. TURNER. I don't have one with me. We can get it, sir.

Mr. THOMAS. What do the seven people do this year that you couldn't have wound up last year and what did they do last year? You have had that for about 6 or 7 years. What do they do?

Mr. TURNER. Besides the emergency planning activity they also review cases involving employees who are hired and cleared by investigation; everybody who comes on the rolls is investigated by a requirement of an Executive order for clearance, for Government employment and if some derogatory information is discovered——

Mr. THOMAS. Why should you be doing this to your workload when the Civil Service Commission has 1,500 investigators doing routine investigations? You stumble into something that looks bad and ugly. Then you have the FBI; they charge you around $1,000 to $2,000 per copy of the investigation.

Mr. TURNER. Someone has to review the case, the information that is developed in these investigations, and determine whether or not a person should have access to classified data and be in a sensitive position.

Mr. THOMAS. You mean you review the routine work of the Civil Service Commission and the detailed study of the FBI?

Mr. TURNER. Right; this is one of the jobs we do in this section.

Mr. THOMAS. Let's eliminate you. How many people do you have doing that? I don't think you are any better qualified than the Civil Service Commission or the FBI, either. I doubt if you are as well qualified.

Mr. TURNER. All they do is investigate and then they give the results to the agency. The agency must screen the information and decide what to do with it. Between the FBI and the Civil Service Commission, they will not recommend whether you clear or do not clear.

Mr. THOMAS. They are investigators. They give you the facts.

Mr. TURNER. Right.

Mr. THOMAS. Why shouldn't the Personnel Department do that? Why should you be doing it?

Mr. TURNER. The Commission from long past furnishes this service for agencies which cannot do it themselves. This involves strictly a personnel investigation and it involves a lot of people.

Mr. THOMAS. Are you working for some other agencies?

Mr. TURNER. No; we are not working for another agency but we pay the Civil Service Commission for a full field investigation where we need it and all employees get what we call a national agency check. This is a routine check, which the Commission furnishes without charge. If any of these cases involve subversive backgrounds, then the Commission calls in the FBI.

Mr. THOMAS. The Civil Service Commission furnishes that without charge? Look up your records.

Mr. MONK. On a full scale we pay $350.

Mr. TURNER. Right.

Mr. MONK. We have a limited number of those.

Mr. TURNER. If an employee is appointed he automatically is subjected to a national——

Mr. THOMAS. We know that as well as you do.

Mr. TURNER. If this is clear, nothing happens. If it is derogatory——

Mr. THOMAS. Why doesn't the Personnel Department handle that? How many people do you have in the Personnel Department? Every man who is employed in this Government goes through that routine

check. Why should you have a special organization set up to do this when it belongs in the regular personnel work?

The bigs things we overlook, with the little things we chase the rabbits all over the lot.

ALLOCATIONS FOR EMERGENCY PLANNING AND SECURITY

Mr. THOMAS. How much have you allocated for emergency planning and security outside of your own budget?

Mr. MONK. We do not get anything.

Mr. THOMAS. Not one penny?

Mr. MONK. No, sir.

Mr. THOMAS. How come? Didn't we appropriate about $4 million for about 12 agencies last year for this purpose?

Mr. MONK. But we have not been of the agencies to participate in this.

Mr. THOMAS. You do not enjoy that?

Mr. MONK. No, sir.

Mr. THOMAS. I do not know why that is.

SUPPLY MANAGEMENT SERVICE

Mr. THOMAS. Supply Management Service, 21, 22, 22. (Reading:)

Supply Management Service formulates and recommends general plans and policies of VA-wide application for contract administration, procurement, storage, distribution, supply management and overall management of the supply fund; evaluates effectiveness and economy of these operations.

Who has supply management this year? Where is Mr. Cook?

Mr. COOK. Right here, sir. This is my office.

Mr. THOMAS. Your office?

Mr. COOK. Yes, sir.

Mr. THOMAS. Who has the entire supply fund now, the procurement for all the installations and the warehouses?

Mr. COOK. The actual procurement and warehousing, sir, is in the Department of Medicine and Surgery.

Mr. THOMAS. Who has that, though?

Mr. THOMAS. Mr. Parmelee is the Director. He is in the next room.

Mr. THOMAS. What became of the Merchant Prince?

Mr. WISE. He died.

Mr. GLEASON. Mr. Cook took his place, Mr. Chairman.

Mr. THOMAS. You are split up all over the lot again. Your warehouses, supplies and everything are in another place and you are over here with the police force now. You are in about four different appropriations.

Mr. TURNER. This is a staff element, sir, that has always existed. It did exist before. Last March we merged two former staff officers into one, but Mr. Cook was still a staff officer as was Mr. O'Neil before him last year and several years before that.

Mr. THOMAS. We will have to go through your budget and transfer this over there when you get into other operation. What do you do in here you don't do in your regular warehouse operation? Is this where you do your purchasing?

Mr. TURNER. No, sir.

Mr. THOMAS. What do these words mean, then? (Reading:)

Supply Management Services formulates and recommends general plans and policies for VA-wide application for contract administration, procurement, storage—

This is just the brain truster crowd. How many people do you have over there doing the actual procurement in your warehouses?

Mr. COOK. In the warehouses themselves, sir?

Mr. THOMAS. In supply you have 3,745 in 1965 against 3,740 last year and 3,712 in 1963. "Management and evaluation" staff—is this your 22 that you are carrying on your chart?

Mr. COOK. Sir?

Mr. THOMAS. Your management and evaluation staff of 22 is the same 22 you had back under "Management and evaluation"?

Mr. MONK. This is the same. This has always been this way, Mr. Chairman. We have had a small staff group separate and apart from the operating group. Previously we had a separate assistant administrator for management services. Last year we combined this organizational element with Mr. Turner's appraisal element, so we eliminated one overhead staff job.

Mr. THOMAS. Where is the purchasing unit you used to have?

Mr. MONK. The purchasing unit is in the supply service at 112 people, 123 for 1965, plus the depots.

Mr. THOMAS. You mean you have your supply fund operation. Then you have your supply depots. Now, you have activities included and funded under medical care appropriation. What do you mean by "activities"? That is the big one.

Mr. MONK. That is field station supply operation. That is the supply officer in the field station at the hospital and his staff.

Mr. THOMAS. Most of your purchasing is done right in your 175 or 180 local stations as far as food is concerned—fresh fruit, milk, butter?

Mr. MONK. That is right.

Mr. THOMAS. How many people do you have buying in your local institutions if you have 22 here in headquarters?

Mr. MONK. The 22 in the headquarters do not do any buying.

Mr. THOMAS. What do they do?

Mr. MONK. They write the policies, oversee the general total supply program as a staff arm of the Administrator, but they are not directly in the line of operation of the supply program. This is done through the Department of Medicine and Surgery and the field station supply operations, the hospitals.

Mr. THOMAS. You do not mean to say you have one group that is laying down standards and forms and has nothing to do with the execution of the policy?

Mr. MONK. Yes, sir.

Mr. THOMAS. What do they do? Here is one crowd up here that you say lays down the standards and tells Medicine what to do and Medicine does the doing?

Mr. MONK. That is right.

Mr. THOMAS. Who should have caught this little error with your X-ray machines? That is what I am getting at. You have 22 people here laying down your standards and yet you turn it over now to Medicine. What liaison, what coordination, what rapport do you

have? I have the idea you do not know each other after you lay down the standards. What rapport exists between these 22 under Mr. Turner, or the Merchant Prince, and those in the Department of Medicine and Surgery?

Mr. MONK. There is a constant liaison. They are very close.

Mr. THOMAS. They sure were not very close. They weren't on speaking terms in the X-ray machine proposition.

Mr. GLEASON. This is true in this instance. There is nothing we can say other than that it won't occur again.

Mr. THOMAS. We do not want to run any salt in any wound. That is water over the dam. The taxpayers lost money. What can be done to prevent its happening again? There is something loose here, something disjointed, disconnected. You have the people, but the people don't function together properly.

Mr. GLEASON. Mr. Chairman, I feel confident that Dr. McNinch, who is our new Chief Medical Director, will make sure that there is closer liaison with his Department and the Office of the Administrator and these situations will not occur in the future, I can assure you.

Mr. THOMAS. It looks like to me that there are 22 braintrusters doing the purchasing. They ought to be over in Medicine where 75 or 80 percent at least of your total volume of your purchasing and supplies serve your medical installations. Why shouldn't they be in one package where they can see what is going on? Put your brain trusters over here in the police department.

Mr. MONK. The Administrator needs a staff to watch the total supply program and lay down broad——

Mr. THOMAS. Isn't that your job? You can supply that, can't you?

Mr. MONK. I need some help to do that.

Mr. THOMAS. How many people do you have in your office, Professor?

Mr. MONK. I have a secretary.

Mr. THOMAS. Only one?

Mr. MONK. Yes, sir.

Mr. THOMAS. Get yourself another secretary to do this.

We don't want to put salt in wounds, but it looks like this needs tightening up badly. A good way to tighten it up, instead of having 160 people, is to cut it down to about a hundred and see what happens.

OTHER OPERATING COSTS—MANAGEMENT AND EVALUATION

What about your other objects? Your personnel compensation is shown here. Is there anything unusual about this in other objects? Do you see anything?

Employee travel is a pretty high figure of $166,565.

Mr. MONK. That is high because these investigators and auditors are on the road most of the time.

Mr. THOMAS (reading):

> To replace equipment that cannot be economically repaired and which meets or exceeds the standards for replacement.

There is nothing out of the ordinary in this, is there?

Does anybody see anything?

Mr. MONK. This is typewriters.

OFFICE OF THE MANAGER, ADMINISTRATIVE SERVICES

Mr. THOMAS. Let's look at the office of the Manager, Administrative Services; housekeeping, $3,557,000.

Let's put page 5–42 in the record.

(The page follows:)

OFFICE OF THE MANAGER, ADMINISTRATIVE SERVICES, $3,557,000

Summary of requirements

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	460	449	420	−29
Costs:				
Personnel compensation	$2,492,013	$2,522,000	$2,467,500	−$54,500
Personnel benefits	188,799	195,000	187,000	−8,000
Total, personal services and benefits	2,680,812	2,717,000	2,654,500	−62,500
Travel	6,242	9,900	9,000	−900
Transportation of things	39,940	48,500	50,100	+1,600
Rents, communications, and utilities	180,667	228,000	206,000	−22,000
Printing and reproduction	406,460	386,000	370,000	−16,000
Other services	222,502	116,300	106,000	−10,300
Supplies and materials	151,564	146,300	142,100	−4,200
Equipment	73,007	48,000	19,300	−28,700
Total costs	3,761,194	3,700,000	3,557,000	−143,000

Mr. THOMAS. Who has this?

Mr. MONK. Mr. Gorman.

Mr. THOMAS. Where is Brother Gorman?

Mr. GORMAN. Right here, sir.

Mr. THOMAS. You know, you ought to be around in front; we have been looking for you.

Where are you from, Mr. Gorman?

Mr. GORMAN. Brockton, Mass., sir.

Mr. THOMAS. This weather makes you feel at home, does it not?

Mr. GORMAN. It sure does.

OPERATING COSTS—ADMINISTRATIVE SERVICES

Mr. THOMAS. Discuss this with us, Mr. Gorman.

You have personnel compensation and this shows a decrease of $54,500, but you still have a bill of $2,467,500. Other objects run about $900,000, which according to my books is about 33⅓ percent of your salary costs. That is considerably high, is it not? Let's see why it is high. He has travel, $9,000, minus $900; transportation of things, $50,100, an increase of $1,600; rents, communications, and utilities, $206,000, minus $22,000; printing and reproduction $37,000, minus $16,000; other services, $106,000, minus $10,000.

Mr. EVINS. Mr. Chairman, I would give him a good mark. They are almost all minus.

Mr. THOMAS. The whole program is down $143,000. You are right.

Mr. MONK. I would like to point out that Mr. Gorman is the housekeeper for the central office elements. These other objects not only are for his office, but for all the other staff offices.

Mr. THOMAS. Dr. Monk, you are always eminently correct.
Let's put page 5–44 in the record.
(The page follows:)

OFFICE OF THE MANAGER, ADMINISTRATIVE SERVICES

Mission

The Manager, Administrative Services, is responsible for the provision of general administrative services. Primary functions include providing basic office service support in central office and certain specialized operating services on a VA-wide basis.

Office Services Division provides, on a VA-wide service basis, claimant identification and folder location, language translation, records development, and processing notices of death. Mail and messenger, files maintenance, telecommunications, and remote transcription services are furnished for all of central office.

Central Office Finance Division is responsible for all fiscal services for central office.

Building and Supply Division provides supply, building management, equipment maintenance, and repair service for all central office.

Visual Aids Division produces and distributes visual media including exhibits and film production on a nationwide basis.

Distribution of average employment

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Office of the Manager	11	13	11	−2
Office Services Division	328	314	287	−27
CO Finance Division	47	48	48	----------
Building and Supply Division	54	54	54	----------
Visual Aids Division	20	20	20	----------
Total	460	449	420	−29

In addition to the above four Divisions, the Manager, Administrative Services, has jurisdiction over the Publications Division and Creative Arts Section. These elements are funded under the supply fund. Accordingly, their details and justification are included under the consolidated supply activities.

FUNCTIONS OF ADMINISTRATIVE SERVICES

Mr. THOMAS. This sort of gives you a good bird's eye view of his 420 people. [Reading:]

The Manager, Administrative Services, is responsible for the provision of general administrative services. Primary functions include providing basic office service support in central office and certain specialized operating services on a VA-wide basis.

These services are on a VA-wide basis. You have "claimant identification and folder location, language translation"—that must be a heavy duty—"records development, processing notices of death." Mailing, files, one of your big ones, telecommunications and remote transcription services are furnished to the central office.

Your Central Office Finance Division is responsible for all fiscal services for central office. "Building and Supply Division provides supply, building management, equipment maintenance and repair service for all central office." You have 54 people in this Division. That is the plumber, electrician, typewriter repairman.

Mr. MONK. The labor crew to move furniture.

Mr. THOMAS. Office Services Division is a big one. You have 287 for 1965. That is minus 27 from 1964. That is on an agencywide basis. You have Folder Division, Language Translation. How many do you have there?

Mr. MONK. We have eliminated that.

Mr. THOMAS. Record Division and processing notices of death. What do you mean? You have mail and messenger, file maintenance. Let's see your breakdown on your big activity. You reduced about 27 in the Office Services Division. You have visual aids, here, 20, Building and Supply Division, 54. What does this Building and Supply Division do? You provide supply, building management, equipment maintenance, repair service for all central office.

What are you going to repair, adding machines, bookkeeping machines?

Mr. GORMAN. We have a machine repair unit repairing our calculators and typewriters.

Mr. THOMAS. Doesn't Building Management Service over in GSA have somebody to take care of your lights and your plumbing and items of that nature? You do not do that, do you?

Mr. GORMAN. No, sir. We are the liaison with GSA on all building maintenance and tenant's alterations.

Mr. EVINS. Your number of employees are down 29 for next year over the past year, is that correct?

Mr. GORMAN. Yes, sir.

OTHER OBJECT COSTS—ADMINISTRATIVE SERVICES

Mr. EVINS. What things are you going to be transporting? You have a slight increase for this item as shown on page 5–46.

Mr. GORMAN. Principally in line with our exhibits, sir, our visual aids.

Mr. EVINS. Rents, communications, and utilities are decreasing.

Mr. GORMAN. Yes, sir.

Mr. EVINS. This item goes up in a number of agencies. You are in line with President Johnson's policy of keeping the lights turned off, I guess.

Mr. GORMAN. Yes, sir. We have a memorandum out to all concerned people to turn out the lights when they go home at night.

Mr. EVINS. That is fine.

CONTROLLER

Mr. THOMAS. We will turn to the Controller. For 1963–65 you had an average employment of 73, 75, 74. You are down one, for a total of $810,075 for personnel compensation in fiscal year 1965 as against $790,053 in fiscal year 1964. You are down $3,700 overall but personnel compensation is up about $20,000. Why this increase?

Mr. SHYTLE. All of that is attributable to the step-2 increase. This is the net effect of most of that, sir.

Mr. EVINS. Controller's Office renders an important service. Mr. Reporter, place in the record pages 5–49 through 5–54.

(The pages follow:)

Controller, $1,060,300

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	73	75	74	−1
Personnel compensation	$711,006	$790,053	$810,075	+$20,022
Personnel benefits	53,055	60,747	62,073	+1,326
Subtotal	764,061	850,800	872,148	+21,348
Travel and transportation of persons	8,337	16,400	16,400	
Transportation of things		1,600	1,600	
Other services	128,801	189,400	165,552	−23,848
Supplies and materials	1,406	1,800	1,800	
Equipment	4,164	4,000	2,800	−1,200
Total cost	906,769	1,064,000	1,060,300	−3,700

The VA Controller is the top financial management officer of the agency. He is responsible to the Administrator for the economical and efficient use of all funds available to the agency and for the control, direction, and administration of all financial operations. He is responsible for reports management and the basic reports structure of the agency, and in research statistics he provides staff support and publications on the veteran population, its characteristics, composition, and participation in Veterans' Administration programs. In addition, he is the principal representative of the Veterans' Administration on budget, appropriations, accounting, and other fiscal matters with the Bureau of the Budget, the Congress, the Treasury Department, the General Accounting Office, and other Government agencies.

The VA Controller's office includes a budget service, financial management service, reports management service, and research statistics service, in addition to his immediate office. These services operate in their functional areas VA-wide to assist the Controller in discharging his responsibilities.

Distribution of average employment

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate
Controller's immediate office	3	4	3
Budget service	27	27	27
Financial management service	23	24	24
Reports management service	12	12	12
Research statistics service	8	8	8
Total	73	75	74

The functions of these services have been emphasized and realined during the past year to meet increasing controllership demands.

In the budget service the fiscal year 1963 average employment level of 27 is projected for fiscal year 1964 and fiscal year 1965. Increased employee effectiveness and productivity in the current and budget years will make additional man-hours available for expanded efforts to (1) more closely relate agency planning and budget functions and objectives, (2) develop better techniques and methods for relating workloads to manpower requirements in determining and justifying agency fund requirements, and (3) generally improving the content and quality of future agency budget submissions.

Financial management service requirements are increasing due to the impact of automatic data processing techniques on accounting, fiscal administration, audit programs, and costing applications; and the continuing emphasis on improving financial management to achieve maximum economy and efficiency throughout the agency.

Reports management is continuing its emphasis on agencywide reports control, reporting needs, and improvements in presentations to the Administrator and top staff officials on program status, progress, and problems.

Research statistics is developing long needed data on veteran population and characteristics from tabulations by the Census Bureau and the Department of Health, Education, and Welfare.

10. Personal services and benefits

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
11 Personnel compensation	$711,006	$790,053	$810,075	+$20,022
12 Personnel benefits	53,055	60,747	62,073	+1,326
Total	764,061	850,800	872,148	+21,348

The increase in cost is attributable to the pay increase as authorized by Public Law 87–793.

21. Travel and transportation of persons

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Employee travel	$8,218	$16,300	$16,300	----------
Local travel	119	100	100	----------
Total	8,337	16,400	16,400	----------

Funds are required for field travel to evaluate budget processes, accounting systems and procedures, reports management, statistical applications, inauguration of a financial audit program, and to obtain an overall evaluation of the Controller's activities.

These funds will also enable our staff personnel to participate in budget conferences, attend financial management, statistical research, seminars, and training courses to include the development and application of automatic data processing functions as pertains to the Office of the Controller.

22. Transportation of things

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−) 1965 over 1964
Shipment of household goods	----------	$1,600	$1,600	----------

To cover shipment of household goods and personal effects for transfer of field personnel as replacements caused by employee turnover.

25. Other services

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Contracts with the Bureau of the Census and Social Security Administration	$127,200	$180,000	$163,000	−$17,000
Miscellaneous contractual services	1,601	9,400	2,552	−6,848
Total	128,801	189,400	165,552	−23,848

For tabulations on male veterans, female veterans, and widows and orphans of veterans from surveys conducted by the Bureau of the Census.

The first tabulation provides for the continuing enumeration of war and peacetime veterans in the Census Bureau's current population survey and the flow of current information on the male veteran population.

The second tabulation will gather data on widows and orphans of deceased veterans in a special national sample survey conducted by the Bureau of the Census.

The third special tabulation will summarize information from an enumeration of female war and peacetime veterans in special Census Bureau survey.

These tabulations will provide information which has heretofore been unavailable, such as current information on veterans income, source of income, and interstate migration. Data made available through these tabulations will greatly increase the effectiveness of long-range planning. Some examples of the uses of these data follow:

To determine nature and extent of the veterans population interstate migration and to project them into the future for planning purposes in the hospital construction and replacement program.

To compare the income of widows of veterans in the compensation and pension program with like widows outside the program in order to evaluate the level of income provided by the compensation and pension benefits.

To ascertain for the first time the extent to which female veterans have participated in the veteran programs, how the veteran programs have met their needs and to determine their family, employment, income and socioeconomic status.

26 Supplies and materials

Office supplies and materials: fiscal year 1963 actual, $1,406; fiscal year 1964 estimate, $1,800; fiscal year 1965 estimate, $1,800.

To provide for the cost of nonroutine expendable office supplies including those to maintain the agency chart room and those used in VuGraph presentations.

31 Equipment

Furniture, furnishings and fixtures: fiscal year 1963 actual, $4,164; fiscal year 1964 estimate, $4,000; fiscal year 1965 estimate, $2,800; increase (+) or Decrease (−) 1965 over 1964, −$1,200.

Estimated requirements for replacing furniture and equipment that is uneconomical to repair and continue in use.

DEPARTMENT OF DATA MANAGEMENT

Mr. EVINS. Department of Data Management; who is the chief of this division?

Mr. BUDD. I am, sir.

Mr. EVINS. You are requesting $10,759,000 for this under "General operating expenses." (Reading:)

The Department of Data Management is responsible for managing, coordinating and planning all ADP operations for the Veterans' Administration. The basic functions are as follows:

1. Directing all VA data processing centers and providing ADP service to VA departments, field stations and staff offices.

2. Identifying areas of potential ADP applications within the VA, conducting preliminary system studies and establishing priorities for feasibility studies. Develop and install new systems and programs.

3. Conducting a continuing review of the Veterans' Administration's ADP resources and their relationship to existing and planned systems. This includes the responsibility for selection of equipment for use in performing the ADP functions of the agency.

4. Furnishing technical staff advice and assistance on ADP and communications to the Administrator, department heads, staff offices and field offices.

What kind of technical advice is that?

Mr. BUDD. Anything that has to do with the ADP service.

Mr. EVINS (continuing reading:)

The planned goal of the Department consists of three major areas in which automatic data processing will be able to improve the future operations of the Veterans Administration. These areas are:

(*a*) Improved quality of service to veterans.
(*b*) Better and more timely information for management and research.
(*c*) Reduction of operating costs.

Tell us about these planning goals.

Mr. BUDD. We are trying to take full advantage of the data processing equipment in any activity that the Veterans Administration has. We are studying every facet of the Veterans Administration and endeavoring to develop a data processing system which will allow us to improve the service we are rendering, to do it at minimal cost.

ESTABLISHMENT OF THE DEPARTMENT OF DATA MANAGEMENT

Mr. EVINS. This division was established in February of 1963?

Mr. BUDD. Yes, sir.

Mr. EVINS. Was it transferred from another department?

Mr. BUDD. Yes, sir. The data processing activities within the agency were all assembled under one department on that date.

Mr. GLEASON. They were consolidated, Mr. Chairman, from the other departments into one department. Previously they had been disseminated through the Department of Veterans' Benefits and Medicine.

Mr. EVINS. This Department advises the Administrator on all data that is processed through all your electronic equipment?

Mr. GLEASON. Yes, sir.

Mr. EVINS. He gives you a report on anything you want?

Mr. GLEASON. Yes, sir.

Mr. EVINS. It is consolidated into one operation and includes medicine?

Mr. GLEASON. Yes, sir.

EMPLOYMENT AND COST—DATA MANAGEMENT

Mr. EVINS. The Department's costs for 1964 and 1965 are $10.3 million and $10,759,000. Manpower requirements have been projected on the basis of estimated needs.

Additional man-year requirements developed: My question is, With the installation of the data processing equipment, why should employment be increasing? This is always the projection, that when you install this equipment the numbers of employees will go down but your projections are increasing.

Mr. BUDD. No, sir. This is the group that makes the studies and does the installation and then operates the system. There are significant decreases within the agency.

Mr. EVINS. There are also significant increases. Look on page 6–4. Most of them are increases, in every department.

INCREASE FOR LOAN GUARANTY AUTOMATION

Mr. GLEASON. Mr. Chairman, the reason why we would like to have this increase of 48 is for research and development of new areas, con-

version and maintenance of newly completed studies and personnel accounting data pay system and also for our loan guaranty automation.

Mr. EVINS. Mr. Administrator, would it be possible to transfer 48 from some other division, as the chairman has suggested?

Mr. GLEASON. No, sir. As you will recall from my statement yesterday, for example, in the Department of Veterans' Benefits we have already decreased that by over 500 employees. Looking at this from an agencywide basis, we think this is exceptionally good.

Mr. EVINS. The Department of Data Management is a very important function and service and I can see that if it were coordinated it would be very valuable because you do compile a tremendous amount of statistics and information through your wide operations. It is very necessary.

We shall place in the record, Mr. Reporter, pages 6–4 and 6–5.

(The pages follow:)

DEPARTMENT OF DATA MANAGEMENT

Comparative summary of requirements by detailed object and subject of expenditure

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment:				
DDM jurisdiction	840	892	940	+48
Plus common services adjustment	−22	−20	−20	
Net average employment	818	872	920	+48
Personal services and benefits:				
Personnel compensation	$5,321,849	$6,465,976	$7,143,297	+$677,320
Personnel benefits	410,624	479,611	531,952	+52,341
Total personal services and benefits	5,732,473	6,945,587	7,675,248	+729,661
Contractual services and supplies:				
Travel and transportation of persons:				
Employee travel, total	86,253	188,000	232,000	+44,000
Transportation of things:				
Other shipments	19,955	36,000	47,000	+11,000
Shipment of household goods	7,057	20,000	20,000	
Parcel post		44,000	50,000	+6,000
Total, transportation of things	27,012	100,000	117,000	+17,000
Rent, communications and utilities:				
Rental of equipment:				
EAM equipment	809,137	704,604	645,604	−59,000
Computer equipment	289,545	100,000	75,000	−25,000
Data transmission equipment	51,490	43,000	33,000	−10,000
Total, rental of equipment	1,150,172	847,604	753,604	−94,000
Communications:				
Telecommunications	1,103,013	894,000	888,000	−6,000
Telephone, telegraph, etc	35,619	53,000	53,000	
Data transmission lines	52,120	33,000	25,000	−8,000
Penalty and nonpenalty mail	26,000	31,000	31,000	
Total, communications	1,216,752	1,011,000	997,000	−14,000
Printing and reproduction:				
Total	171,082	275,000	240,000	−35,000
Other services:				
Contractual ADP maintenance	119,107	174,000	200,000	+26,000
Other services	390,227	748,000	294,000	−454,000
Total, other services	509,334	922,000	494,000	−428,000

Comparative summary of requirements by detailed object and subject of expenditure—Continued

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Supplies and materials:				
Office supplies	86,039	76,008	70,608	−5,400
Operation and maintenance, supplies, and materials	24,986	24,000	24,000	
Books, newspapers, and periodicals	500	2,600	2,000	−600
Total supplies and materials	111,525	102,608	96,608	−6,000
Acquisition of capital assets:				
Equipment:				
Equipment replacements		17,000	20,000	+3,000
Equipment additions	3,034,001	93,000	340,000	+247,000
Total equipment	3,034,001	110,000	360,000	+250,000
Total cost DDM jurisdiction	12,038,604	10,501,799	10,965,460	+463,661
Common services adjustments	−209,393	−201,799	−206,460	−4,661
Total net cost	11,829,211	10,300,000	10,759,000	+459,000

PERSONNEL COSTS—DATA MANAGEMENT

Mr. EVINS. Personnel services are up from $6.4 million in 1964 to $7,143,000 in 1965. Is this partly attributable to the pay raise, Mr. Monk?

Mr. MONK. Partly, but partly because of the increase of the 48 personnel. This department, the employment here, Mr. Evins, will have to go up as we convert more and more activities into computers, electronic methods, because when we do this it takes people to operate the machines and to program and to actually provide the service which this department does. At the same time, there will be corresponding decreases elsewhere.

Mr. GLEASON. In other departments.

Mr. MONK. Maybe 10-to-1 decreases in other departments as we add into this department.

AUTOMATION OF PAYROLL SYSTEM

Mr. EVINS. You had a data processing in the Department of Medicine and also a processing section in your administrative function?

Mr. MONK. That is right.

Mr. EVINS. You consolidated them.

Mr. MONK. That is right.

When we put our payroll on computers, which we are going to do later this year, they will have to have more people here to operate the payroll system out of the Department of Data Management, but we will reduce employment in Medical, Department of Veterans Benefits and the Staff Offices because we will need less people to do the payroll job in those offices, but we will need some increase in this department to perform that work in this department.

Mr. EVINS. This division will do all your payroll and check disbursing?

Mr. MONK. They will.

Mr. GLEASON. They will by the end of the year, Mr. Chairman.

Mr. EVINS. They are just getting organized.

Mr. MONK. They operate the computer at Hines. Mr. Budd is responsible for that operation. He has the operation at Philadelphia.

Mr. EVINS. I notice an increased equipment cost. You are adding more equipment to this division.

Mr. BUDD. Yes, sir. As we put more applications on, additional equipment allows us to get more utilization out of the computers we have.

EMPLOYMENT—DATA MANAGEMENT

Mr. EVINS. The chart on page 6–7 shows that with all this new equipment you still propose to add 48 additional personnel.

We will place 6–6 and 6–7 in the record.

(The pages follow:)

General operating expenses

Title	Grade	1963 actual		1964 estimate		1965 increase (+) or decrease (−)	1965 estimate	
		Number	Amount	Number	Amount		Number	Amount
Chief, data management director	18	1	$20,010	1	$20,010	.....	1	$20,010
Deputy chief, data management director	17	.....	.....	1	18,512	.....	1	19,011
Deputy chief, data management director	16	1	17,014	.....	.....	.....	.....	.....
Assistant deputy chief data management director	16	1	17,014	1	17,514	.....	1	17,514
Director, management staff	16	1	17,014	1	17,514	.....	1	17,514
Director, system and analysis research service	16	.....	.....	1	16,515	.....	1	17,014
Director of service	15	2	31,075	3	50,106	.....	3	51,146
Assistant director of service	15	2	29,162	8	132,056	.....	8	135,176
Associate director of service	15	3	39,810	3	48,546	.....	3	50,106
Administrative officer	15	1	15,059	1	16,702	.....	1	17,222
Manager	15	3	45,657	5	84,030	.....	5	85,070
Chief of division	15	1	15,059	1	16,702	.....	1	17,222
Assistant director	14	2	27,393	4	56,328	.....	4	58,072
Associate director	14	.....	.....	1	14,976	.....	1	14,976
Manager	14	1	13,707	.....	.....	.....	.....	.....
Assistant manager	14	1	13,707	4	55,848	+1	5	70,846
Chief of section	14	1	13,707	2	29,952	.....	2	29,952
Communication specialist	14	1	14,123	1	14,976	.....	1	14,976
Digital computer system analyst	14	9	120,738	9	128,460	.....	9	132,916
Management analyst, supervisor	14	1	12,854	1	14,082	.....	1	14,518
Staff assistant	14	.....	.....	1	14,976	.....	1	14,976
Statistician, general	14	1	13,707	1	14,082	.....	1	14,518
	13	56	661,072	85	1,067,085	+8	93	1,176,863
	12	64	641,124	75	814,650	+15	90	976,613
	11	65	545,200	66	591,754	+22	88	788,832
	10	7	57,077	6	50,996	.....	6	51,294
	9	53	367,073	81	607,355	−3	78	588,916
	8	7	46,541	9	63,070	.....	9	64,102
	7	68	410,587	78	498,108	−26	52	335,896
	6	23	133,495	23	137,327	−2	21	127,817
	5	99	503,060	103	534,237	−1	102	534,345
	4	147	684,775	149	691,062	+2	151	702,228
	3	235	925,530	199	825,094	−4	195	828,428
	2	20	78,865	12	47,624	.....	12	47,944
Total permanent	.....	877	5,531,209	936	6,710,249	+12	948	7,036,033
Deduct:								
Lapses	.....	37	224,673	44	271,159	−36	8	51,212
Net savings due to lower pay scale for part of the year	.....	.....	88,425	.....	139,320	.....	.....	.....
Portion of salaries shown above paid from "supply fund"	.....	22	101,344	20	96,976	.....	20	101,296
Other personnel compensation:								
Terminal leave	.....	.....	23,194	.....	25,000	.....	.....	28,000
Overtime and holiday pay	.....	.....	62,902	.....	73,000	.....	.....	77,000
Nightwork differential	.....	.....	17,642	.....	19,000	.....	.....	27,000
Regular pay above 52-week base	.....	.....	.....	.....	49,206	.....	.....	26,475
Net permanent (average employee personnel compensation)	.....	818	5,220,505	872	6,369,000	+48	920	7,042,000
Personnel benefits	.....	.....	402,735	.....	472,000	.....	.....	524,000
Average employee, personal services	.....	818	5,623,240	872	6,841,000	+48	920	7,566,000

Comparative summary of average employment by function

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Central office:				
Chief, Department of Data Management Director	19	19	21	+2
Systems Analysis and Research Service	35	40	49	+9
Systems Development Service	44	65	72	+7
Systems Maintenance Service	58	71	79	+8
Resources Service	42	63	69	+6
Total, central office	198	258	290	+32
Field operations:				
Executive administration	26	26	28	+2
Systems Division	77	90	105	+15
Operations Division	431	401	398	−3
Office services	96	95	94	−1
Research and Development Division	12	22	25	+3
Total, field operations	642	634	650	+16
Total, central office and field	840	892	940	+48
Common services adjustment	−22	−20	−20	
Net average employment	818	872	920	+48

Mr. EVINS. The Operations Division is shown on page 6–14. Your equipment goes up $291,000, the total net cost, after some common services deductions. What does that represent, Mr. Budd?

Mr. BUDD. The common service adjustment, sir?

Mr. EVINS. Yes.

Mr. BUDD. Our data processing centers are located where other VA stations are located; and rather than setting up separate personnel, separate supply and engineering divisions, we get support from other VA activities on that site.

DATA PROCESSING CENTERS

Mr. THOMAS. Let's locate the five centers you have. Locate them for Mr. Evins.

Mr. BUDD. Philadelphia, Pa., Hines, Ill., St. Paul, Minn., Los Angeles, Calif., and Washington, D.C.

Mr. THOMAS. Three of those have been in existence heretofore. How long have the other two been in existence?

Mr. BUDD. July 1 of 1963, sir.

Mr. MONK. They have been in existence for a long time. The Los Angeles one has only been in existence for 3 or 4 years, but the one here in Washington we have had for a long, long time.

Mr. BUDD. Under a different caption.

Mr. EVINS. Each of your several divisions send in information and it is all coordinated here?

Mr. BUDD. Yes, sir.

Mr. THOMAS. You did not set up one here in Washington, did you?

Mr. BUDD. Yes, sir; we have a data processing center here.

Mr. MONK. The Washington one has existed for a long time. This is the element where we consolidate all of the agencywide reports.

OPERATIONS DIVISION—DATA MANAGEMENT

Mr. EVINS. Mr. Reporter, put pages 6–14 and 6–15 in the record. This tells what the Operations Division does.

(The pages follow:)

OPERATIONS DIVISION, $3,608,000

Summary of requirements

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	431	401	398	−3
Common services adjustment	−28	−26	−26	
Net average employment	403	375	372	−3
Personnel compensation	$2,151,456	$2,181,153	$2,234,329	+$53,176
Personnel benefits	167,780	160,939	166,024	+5,085
Total personal services and benefits	2,319,236	2,342,092	2,400,353	+58,261
Employee travel	10,130	8,000	8,000	
Transportation of things	2,993	10,000	10,000	
Rental and utilities services	1,150,172	847,604	753,604	−94,000
Communications	52,120	33,000	25,000	−8,000
Printing and reproduction	77,475	144,000	140,000	−4,000
Other services	138,454	212,000	219,000	+7,000
Acquisition of capital assets: Equipment	3,021,514	7,000	298,000	+291,000
Total cost, DDM jurisdiction	6,772,094	3,603,696	3,853,957	+250,261
Common services adjustment	−244,404	−240,696	−245,957	−5,261
Net costs, total	6,527,690	3,363,000	3,608,000	+245,000

OPERATIONS DIVISION

Operates the data processing system, including computers, peripheral, data transmission, and EAM equipment and insures that attained results are within the prescribed system control. Some of the major functions are:

1. Schedules the machine processing to meet output commitments for production or test runs and insures effective machine and staff utilization.
2. Maintains logs of machine utilization to determine actual cost of machine time and to provide managerial control.
3. Schedules and controls all machine input and controls proper distribution of output.
4. Controls magnetic tape inventory and library and is responsible for security of program tapes and data files.
5. Maintains liaison with manufacturer's customer engineers to insure proper level of equipment maintenance.

The decrease of employment in 1964 and 1965 is due primarily to the conversion of punchcard systems to an ADP system, notwithstanding the need for extra-shift personnel to accommodate existing and new ADP operations and effect better utilization of computers. Significant areas involved are conversion of USGLI accounts, actuarial operations, and the conversion of other EAM activities to ADP.

Objects other than personal services and benefits are justified for the Department in total on pages 6–18 through 6–23.

Mr. EVINS. The logs are maintained, as well as the schedules.

The research and development in the Department of Data Management is shown on page 6–18. Salaries and benefits are up $54,000. There are some slight deductions, making the total increase $52,000. Is this pay act?

Mr. BUDD. Yes, sir. This is essentially the pay increase.

TRAVEL-DATA MANAGEMENT

Mr. EVINS. Your travel out of central office is up by about $50,000.

Mr. BUDD. Yes, sir.

Mr. EVINS. I thought they were sending all the information in to you.

Mr. BUDD. Sir, $44,000 is the total figure we have on travel increase. Sir, that comes about because we have several major installations to put in, ADP installations, this coming year, the pay personnel system and the first phase of our loan guarantee system. This requires central office personnel to be on site to assist in the training and conversion, which is one of the most critical aspects.

Mr. EVINS. You will bring those men in from Philadelphia and Hines to train the people here?

Mr. BUDD. No, sir. We have to write procedures, we have to train the field people who have to prepare the information that goes through the computers.

Mr. EVINS. I thought you said they were operating for some time.

Mr. BUDD. Yes, sir, but each application requires specific training because it is a new system. It is not general training for automatic data processing. It is taking the actual application and installing it.

Mr. EVINS. Mr. Budd, are your reports piecemeal or are they consolidated into one overall report that probably gives you the full picture?

Mr. BUDD. I do not know how to answer that question, sir. I am not sure I understand it.

Mr. EVINS. I know VA makes an annual report which gives you everything. Does your data processing report to the Administrator give him everything?

Mr. BUDD. This is our objective, sir. One of the main projects we have is to develop a management information system which will give him his total information from the computers automatically.

Mr. EVINS. Any further questions on data management?

If not, we will turn to the Department of Veterans' Benefits.

DATA PROCESSING EQUIPMENT

Mr. THOMAS. Before you leave that, let us go into some detail on other objects here, particularly rental and communications.

What about purchase of equipment? How much are you spending for it this year?

Mr. BUDD. This year we have about $360,000, sir.

Mr. THOMAS. What is your inventory on machines now? You have EAM equipment, about $645,000, a reduction. What is that EAM equipment?

Mr. BUDD. Electric accounting machines.

Mr. THOMAS. That has nothing to do with your automatic data processing equipment. They are two separate and distinct items. How much are you spending in this budget for rent on automatic data processing equipment and how much are you spending for the purchase of new equipment and what is your inventory on your automatic data processing equipment?

NUMBER OF COMPUTERS IN VA

Mr. BUDD. We have 14 computers in the Veterans' Administration, sir. Eleven have been purchased previously.

Mr. THOMAS. Where are they located?

Mr. BUDD. The 14?

Mr. THOMAS. Yes.

Mr. BUDD. We have two pieces in Washington, D.C., we have three pieces in Philadelphia, we have four pieces in Hines, we have two pieces in St. Paul, one piece in Los Angeles, one at Little Rock, and one at Omaha.

CENTRAL OFFICE SERVICING OF COMPENSATION AND PENSIONS

Mr. THOMAS. What is the jurisdiction of the central office in Washington as far as compensation and pensions?

Mr. BUDD. What is the jurisdiction?

Mr. THOMAS. Yes.

Mr. BUDD. I am not sure I understand the question.

Mr. THOMAS. What is the jurisdiction of the Washington office in compensation and pension?

What cases do you take care of? I thought they were all in your regional offices.

Mr. BUDD. No, sir. The compensation and pension all are paid out of the Hines Data Processing Center. They are centralized. All payments are handled in Hines. The Washington Data Processing Center primarily handles the consolidation of reports and performs services for all the staff offices and departments in Washington, D.C.

Mr. THOMAS. What are those services? Do you take care of Reserve officer death compensation here?

Mr. BUDD. Yes, sir.

LOCATION OF EMPLOYEES AND WORKLOAD

Mr. THOMAS. Why didn't you tell us that? You knew what I was asking for. How many employees do you have here in the District of Columbia doing this work?

Mr. BUDD. 130, sir.

Mr. THOMAS. How many do you have in St. Paul?

Mr. BUDD. Eight-five.

Mr. THOMAS. And the remainder of the three, how many?

Mr. BUDD. 190 in Philadelphia, 175 in Hines, Ill., and 67 in Los Angeles.

Mr. THOMAS. You mean you have more employees here in the District of Columbia than you have in those four other regional offices?

Mr. BUDD. No, sir. We have more in——

Mr. THOMAS. How do you account for your topheavy employment here against the other agencies?

Mr. BUDD. It is the work assigned to the particular data processing center.

Mr. THOMAS. Name it.

Mr. BUDD. The work we have in Washington is basically preparing reports.

Mr. THOMAS. Name some of the reports.

Mr. BUDD. Consolidation of personnel statistics, consolidation of budget data, preparation of payroll for all employees in central offices.

Mr. THOMAS. That is the Controller's Office; is it not? What does he do? There is the financial man. He is not only the financial man, but he is the statistical man. What is he doing with it?

Mr. BUDD. The paperwork part of it is what the data processing center does. When it gets ready for pay——

Mr. THOMAS. Is that charged to you or Dr. Shytle?

Mr. BUDD. Paperwork is charged to me, sir. We use punchcards and mechanical equipment to do as much of the work as possible. This is the system that we are going to convert to a tape system, to a large computer, which will be done in Hines later this year, sir.

Mr. THOMAS. We thought Judge Shytle was the financial genius. We thought you were doing all the work. Come to find out, you turned it over to our distinguished friend, here.

Mr. SHYTLE. He is not doing it all, sir. He is handed raw data and brings it in, so we can use and bring it together, and make you a budget.

Mr. THOMAS. Excuse me, Mr. Evins.

Mr. EVINS. It does appear in some regions you have data management; you have your administrative functions, and you have your Controller. Possibly there could be some more coordination. There may be some overlapping and duplication.

Mr. GLEASON. There isn't, Mr. Evins; I can assure you of that.

Mr. EVINS. If you say that, Mr. Administrator, I will take your word for it.

Mr. GLEASON. Thank you, sir.

DEPARTMENT OF VETERANS BENFITS

Mr. EVINS. We will turn next to the Department of Veterans Benefits. We discussed this at quite some length on yesterday. This is the division that requires the biggest appropriation. This is under Mr. Brickfield?

Mr. GLEASON. Yes, sir.

Mr. EVINS. Mr. Reporter, we shall place in the record pages 7–2 and 7–3.

(The pages follow:)

DEPARTMENT OF VETERANS BENEFITS

ALL APPROPRIATIONS, $4,149,047,000

Summary

The Department of Veterans Benefits has jurisdiction over, directs, and is responsible to the Administrator for, a program of veterans benefits consisting of compensation and pension, insurance, vocational rehabilitation and education, loan guarantee, guardianship, and contact activities.

The Department's requirements for fiscal year 1965 are budgeted under the following appropriations:

1. *General operating expenses.*—Funds under this appropriation provide for necessary operating expenses of the Department, such as salaries, supplies, services, and travel.

2. *Compenation and pension.*—Funds provided under this appropriation are used to pay compensation to veterans and their dependents for disabilities or death which are service connected. These funds are also used to pay pensions to veterans and their dependents for disabilities or deaths that are not of a service-connected origin, whenever there is a demonstration of need within the

criteria established by the Congress. Amounts are also paid out of this appropriation for burial awards, burial flags, subsistence to seriously disabled veteran receiving vocational rehabilitation and other allowances, awards and gratuities related to the veteran's service.

3. *Readjustment benefits.*—Funds provided under this appropriation are used to pay for the vocational rehabilitation of seriously disabled veterans, and to otherwise assist in the education and training of veterans of wartime service, as well as certain qualified children of these veterans. These funds are spent for tuition, necessary equipment, and supplies as authorized by law. Money from this appropriation is also used to provide specially equipped automobiles to the more seriously disabled veterans and specially adapted houses to certain very seriously disabled veterans. Whenever it becomes necessary to augment the funds available to the loan guarantee revolving fund, for payment of claims and other costs incident to guaranteed and insured housing loans to veterans, such funds are obtained under this appropriation for transfer to that revolving fund.

4. *Veterans insurance and indemnities.*—Funds under this appropriation are avialable for term and automatic military and naval insurance payments; for the payment of benefits and for transfer to the National Service Life Insurance Fund; and for automatic indemnity coverage benefit payments in accordance with the Servicemen's Indemnity Act of 1951.

5. *Grants to the Republic of the Philippines.*—Funds under this appropriation are used to pay the Republic of the Philippines for the medical care and treatment of veterans of the Philippine Commonwealth Army.

The following table summarizes in millions of dollars the actual costs for fiscal year 1963, the appropriations for fiscal year 1964, and the fiscal year 1965 requirements:

Summary of requirements

[In millions of dollars]

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
General operating expenses	$135.0	$137.4	$132.4	−$5.0
Compensation and pensions	3,874.0	3,921.0	3,963.0	+42.0
Readjustment benefits	95.8	67.0	39.6	−27.4
Grants to the Republic of the Philippines	.5	.3	.3	
Veterans insurance and indemnities	32.7	31.0	13.7	−17.3
Total appropriation estimates	4,138.0	4,156.7	4,149.0	−7.7

Mr. EVINS. The Department of Veterans Benefits has jurisdiction over and direct responsibility for programs of veterans benefits consisting of compensation, pension, insurance, vocational rehabilitation, education, loan guarantee, guardianship, and contact service.

That is being reduced substantially.

Off the record.

(Discussion off the record.)

Mr. EVINS. Compensation and pensions for fiscal year 1963 it was $3,874 million for 1964, $3,921 million and for 1965, estimated $3,963 million or an increase of $42 million. This is by statute. How many supplementals did you have to submit to get it adjusted to the right level last year just for compensation and pensions?

Mr. GLEASON. We did not have any.

Mr. EVINS. You didn't have a supplemental last year?

Mr. GLEASON. No.

Mr. THOMAS. I thought you did.

Mr. BRICKFIELD. We had one last year, one supplemental.

Mr. GLEASON. That was last year. I am talking about 1964.

Mr. EVINS. How much was the last supplemental you submitted?

Mr. BRICKFIELD. Last year we had a supplemental, Mr. Evins, and we asked for I think $42 million. We spend about $11 million a day in this appropriation, so it is kind of hard when you come down to the end of the year to hit it right on the head.

Mr. EVINS. You testified yesterday that the pension rolls are increasing annually.

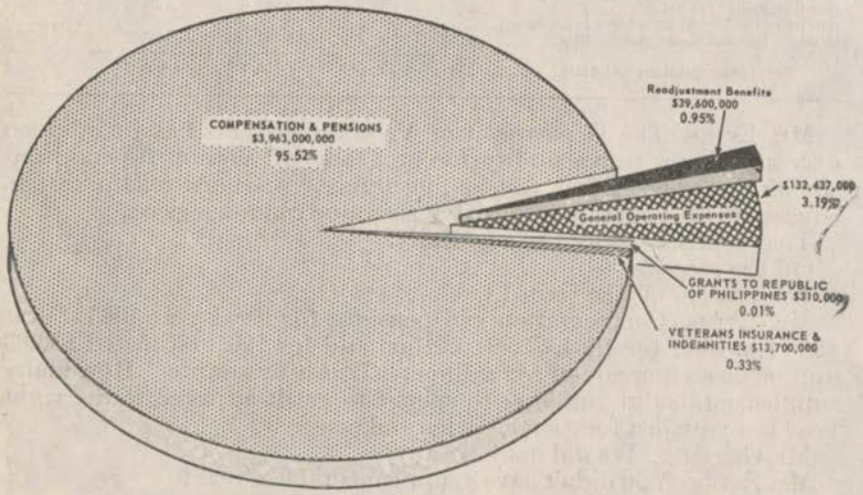
Mr. BRICKFIELD. Yes. The increase there is principally the increase in the pension rolls, $35.5 million.

Mr. EVINS. Can this chart on page 7–4 be printed in the record? If so, let's have the chart on page 7–4 included. It shows you the entire amount; 95.52 percent of this payment is payment to veterans in compensation and pensions.

(The chart follows:)

DEPARTMENT OF VETERANS BENEFITS

TOTAL APPROPRIATIONS - $4,149,047,000



Mr. EVINS. General operating expenses declined and Veterans Insurance and Indemnities——

Mr. GLEASON. They decreased $5 million, I might point out.

Mr. EVINS. This is the lesser number of veterans with insurance in force. Is this the reason for this?

Mr. GLEASON. No, sir. I meant the general operating expense of the Department of Veterans Benefits.

Mr. BRICKFIELD. This $17 million, Mr. Evins, this is an insurance benefit. Between 1951 and 1956 there was the so-called free insurance and if the veteran was killed in the service at that time, we gave $10,000 of insurance at some $92 a month. Ten years from 1956—the end is in 1966 and it is now beginning to phase out and decline. That is why we have this reduction of $17 million.

Mr. THOMAS. Mr. Evins, may I interrupt a moment?

Mr. EVINS. Certainly.

FUTURE ADP APPLICATIONS

Mr. THOMAS. Mr. Brickfield has a very heavy responsibility here. It goes back to our friend, Mr. Budd, and his new Department. These two certainly go hand in hand. If there is any justification for Mr. Budd's future continuance it will have to depend on the feedback from Mr. Brickfield here. As of today there is not sufficient offsetting reduction in personnel to justify Mr. Budd's tremendous budget for this year.

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Well, wait a minute. Go back to your insurance. Of course, that is included in here. You are riding on what you have done on insurance but that insurance cannot carry every other activity on its back. That is what it is doing now. It is going to be up to Mr. Brickfield's group to help Mr. Budd make this thing work. There is no reason in the world why it should not work. If we give you enough time and you have enough patience it is bound to work.

Mr. MONK. There will also be a large load for Mr. Budd from the Medical Department as time goes on.

TRANSFER OF FUNCTIONS

Mr. THOMAS. What was this $132,437,000 item last year, the general operating expense for the Department of Veterans' Benefits?

Mr. BRICKFIELD. It is on 8–2, Mr. Chairman.

Mr. THOMAS. What is it, please?

Mr. BRICKFIELD. $137,438,000.

Mr. THOMAS. $137.4 million?

Mr. BRICKFIELD. That is right.

Mr. MONK. But we must remember here, we have made a comparative transfer here. When we pulled Mr. Budd's department out we also pulled out of the Department of Veterans Benefits the people that were previously charged to the Department so that you would have to build this up to show the comparative transfers. Remember we told you that 820 of Mr. Budd's people came out of other organizations.

Mr. THOMAS. I think your table on 8–11 and 8–12 does it in tabular form for the years 1963, 1964, and 1965, but you do not show by narrative the transfers in and out.

Mr. GLEASON. I thought we did that last year.

Mr. BUDD. We did.

Mr. SHYTLE. We had instructions on that last year. This year what we did was retroactively adjust back the same employees so that you have comparison.

Mr. THOMAS. Judge, we are not talking about last year. We are talking about what is in here now. Go ahead. That is all right.

Mr. GLEASON. Those figures are built in here.

Mr. EVINS. This chart on 8–7 shows it. This is the summary of requirements by major categories.

Mr. SHYTLE. That is a good chart. That is a good place to compare your reductions in 1965. You will notice the reduction in insurance is not carrying the increase to the data management to that extent, Mr. Chairman.

Down at the bottom of that page, summary of requirements activity, you will notice that $575,000 reduction is in the insurance operation. He is pulling down his cost $4,970,000, with the service adjustment of $5,001,000 and only $575,000 of that is in insurance. He is pulling down his straight DVB operations from 1964 to 1965 considerably more than Mr. Budd is going up in data management, which is only 48 people.

Mr. BRICKFIELD. Mr. Thomas, I think you can get a clear picture of this on page 4–3.

Mr. THOMAS. These tables tell the story. I just pointed out it was not in narrative form. I think you can depend that we on both sides of the table know what these figures mean, but what about the people who read the record?

Mr. GLEASON. On the top of the page, Mr. Chairman, I would like to point out there is a reduction of 589 people in the Department of Veterans Benefits whereas Mr. Budd increased 48 people.

Mr. EVINS. Where do they go?

Mr. GLEASON. They will be absorbed through attrition.

Mr. EVINS. They will be off the rolls?

Mr. GLEASON. Yes, sir.

EMPLOYEE TURNOVER

Mr. THOMAS. What is your turnover this year for all causes—deaths, resignations, and so on?

Mr. MONK. 1½ percent per month, about 18 percent per year.

Mr. THOMAS. Was it about that same level last year?

Mr. MONK. Yes, sir.

Mr. THOMAS. Throughout the Government turnover heretofore has been 16 percent but the Civil Service people reduced it to 14 percent this year. But your figure of turnover for all causes is 18 percent?

Mr. MONK. Yes, sir. It is a little high for us because of the dietetic workers, housekeeping workers, and so forth.

Mr. UNDERWOOD. The figure for 1963 for full time only is 16.8 percent. And for 1962 it was 17.8 percent. It is higher when you include both full-time and part-time employees because most of our turnover is with the part-time group. So we have a slightly lower turnover rate in 1963 than we had in 1962.

Mr. EVINS. You have more and more veterans on the pension roll and more and more being admitted to the hospitals and Congress passes pay increases for the employees, yet the number of employees is down which would appear to be a pretty good picture of management providing more service with the same personnel.

Mr. GLEASON. Thank you, Mr. Evins.

Mr. EVINS. But we are never satisfied, Mr. Gleason.

Mr. GLEASON. Yes, sir. I appreciate that.

GENERAL OPERATING EXPENSES—VETERANS' BENEFITS

Mr. EVINS. Miss Reporter, put pages 8–1 through 8–8 in the record. (The pages follow:)

DEPARTMENT OF VETERANS' BENEFITS

GENERAL OPERATING EXPENSES, $132,437,000

General statement

The Department of Veterans' Benefits is responsible for providing all of the direct benefits, except medical, to eligible veterans and their dependents as authorized by law.

The basic functions of the responsibilty are as follows:

Adjudicate the claims of veterans and their dependents for compensation and pension benefits.

Adjudicate associated claims for such benefits as insurance awards, burial allowances and other miscellaneous allowances or awards.

Provide guarianship and fiduciary service to helpless or incompetent veterans and minor dependents.

Counsel and supervise the vocational rehabilitation of disabled veterans, including the more seriously disabled peacetime veterans.

Guide and supervise the education and training to which Korean veterans are entitled.

Counsel and supervise the education of war orphans.

Issue certificates of loan guaranty or insurance for veterans' home and business loans.

Service veterans' loans reported to be in default.

Settle claims by lenders on defaulted guaranteed or insured loans.

Acquire, manage, and dispose of properties on which veterans have defaulted and lenders' claims have been paid.

Make direct loans to veterans where private financing is not available.

Assist qualified paraplegic veterans to acquire housing specially adapted to their disabilities.

Disseminate information to veterans and their dependents regarding their entitlement to assistance and benefits.

Provide service and administer benefits to policyholders and their beneficiaries under existing insurance programs.

Support the above functions with efficient and economical finance, administrative, and personnel services.

In some instances these support services are provided to other VA departments, or received from other departments. The cost effect of such "common services" is shown as "common service adjustments."

Summary analysis of change

Fiscal year 1964 estimate	$137,438,000
Less:	
One less workday	440,000
Reduction in workloads	4,298,500
Reduction in employee travel	37,000
Reduction in printing and reproduction	30,000
Reduction in equipment	1,660,000
Reduction in V.R. & E. "Other objects"	1,300,000
Reduction in other costs	624,500
Total reductions	8,390,000
Plus:	
Within grade periodic salary increases	1,177,000
Public Law 87-793—salary rate increase	2,212,000
Total increases	3,389,000
Net reduction	5,001,000
Fiscal year 1965 estimate	132,437,000

Department objective

We have earlier stated the requirements and responsibilities of the Department of Veterans' Benefits. It is our aim to discharge these responsibilities with the greatest possible speed, effectiveness and economy without stinting in the service provided the disabled or needy veteran and his dependents.

Improvements and economies

In keeping with this objective, it is our endeavor constantly to strive for improvements and economies in our operations. Typical of accomplishments in this direction over the past years are:

Consolidation of insurance activities.—Formerly, all insurance activities were under the jurisdiction of a separate department. During fiscal year 1963 they were consolidated with the Department of Veterans' Benefits, thereby, combining the responsibility for all nonmedical benefits to eligible veterans and their dependents in one department. This combination permits greater flexibility and economy in the guidance and administration of these benefits. At the same time, the number of field stations handling insurance activities was reduced from three to two.

Consolidation of vocational rehabilitation and education actiivties.—In fiscal year 1959 we administered the V.R. & E. program through 67 regional offices. Since then the staffing requirements in relation to the number and type of veterans being serviced have regularly and systematically been evaluated in terms of the number and location of the V.R. & E. offices required. As a result, the number of these offices has progressively been reduced to 27 as of June 30, 1963. These reductions were accomplished by means of consolidating workloads and staffs among offices in geographic proximity to each other. This has resulted in the retention of a single office of an effective and economical size in lieu of two or more which would have been uneconomical and of limited effectiveness. Not only has this permitted the continuation of maximum service to the decreasing number of veterans in training, but it has done so at considerable savings.

Contact office closings.—In fulfilling its obligation to provide maximum information, aid and assistance to veterans and their dependents seeking benefits to which they are entitled, this Department in 1956 maintained 309 contact offices which were located separate and apart from our regional offices in strategic population areas throughout the States. Again, the need for these offices was regularly and systematically evaluated in terms of the traffic each received. When it was determined that a permanently staffed office was no longer war-

ranted by the number of beneficiaries utilizing it, the office was closed. In lieu of a permanently staffed office, the affected area would initially be serviced by itinerant contact personnel visiting the location on specified days. Eventually, such itinerant service was also curtailed as appropriate. By this careful and selective method the number of full-time contact offices has been reduced to 10.

Automatic data processing.—Alert to modern advances in accounting and data processing by electronics, this Department began very early to apply these techniques to the payment and procesing of its millions of compensation and pension and insurance accounts. Currently, all compensation and pension accounts (except for Manila, P.I.) are now maintained and paid by an automatic data processing system as are all National Service Life Insurance accounts. Conversion to automatic data processing will be completed in fiscal year 1964 of U.S. Government Life Insurance (World War I insurance) and insurance actuarial operations.

Improvements in manpower utilization and control.—Within the Department of Veterans Benefits, manpower control systems are observed through a variety of management practices and processes.

The Department has been long engaged in the continued maintenance of an effective, efficient, and strong management improvement program and manpower control system. One of the most significant steps taken by the Department has been the increased emphasis on the application of work measurement standards in the budgetary process. Our work measurement system has been designed to serve the following managerial functions: (1) Manpower and staffing requirements, (2) program management and evaluation, (3) long-range planning, (4) performance evaluation, and (5) production control.

Much emphasis, through Bureau of Budget Circular A–44, revised, and VA communication releases, has been placed on a strongly directed budget review process in order to exert continuing pressure for increased efficiency through a program of improving manpower controls and utilization with the budget process. A particularly good example of the Department's search for ways of improving and increasing manpower utilization occurred in fiscal year 1963 when it was determined to go beyond central office and systematically survey our field stations for improvement ideas. Accordingly, field stations were requested to submit all ideas, innovations, and suggestions they had for improving manpower utilization. These proposals covered a wide range of activities which would be classified under the following subjects: (1) organizational improvement, (2) improved work flow, (3) simpler procedures, (4) improved forms control and design, (5) elimination of report preparations through mechanical means, and (6) elimination of nonessential activities. The proposals approved resulted in a change in policy or procedure which was not previously planned. Many of the proposals were counted as disapproved due to the fact that the procedure or policy involved was in effect or in process of being placed in effect at the time the recommendation was received. In general, the recommendations represent constructive thinking and an earnest desire on the part of regional offices to improve procedures with the resultant effect in better manpower utilization.

Incentive awards.—We have had consistently good participation in this vital program for encouraging and recognizing superior performance and the creation of better methods for improving and economizing on our operations. The following summarizes the program activity in 1963:

	Fiscal year 1963
Total suggestions submitted	3,674
Total suggestions approved	1,773
Tangible savings	$356,216
Number of performance awards	1,295

The tangible savings represented above are annual savings during the first year of operation under the adopted suggestions and are applied toward the total cost of operating the station. While intangible savings may not generate funds that can be applied to operations, they do result in improved working conditions, greater safety, etc.

Future plans

With the history of improvements and economies that have been accomplished, the Department plans no lessening of its efforts in this direction. Rather, its previous efforts will be augmented by the experience gained and the sources of such managerial gains that have been demonstrated.

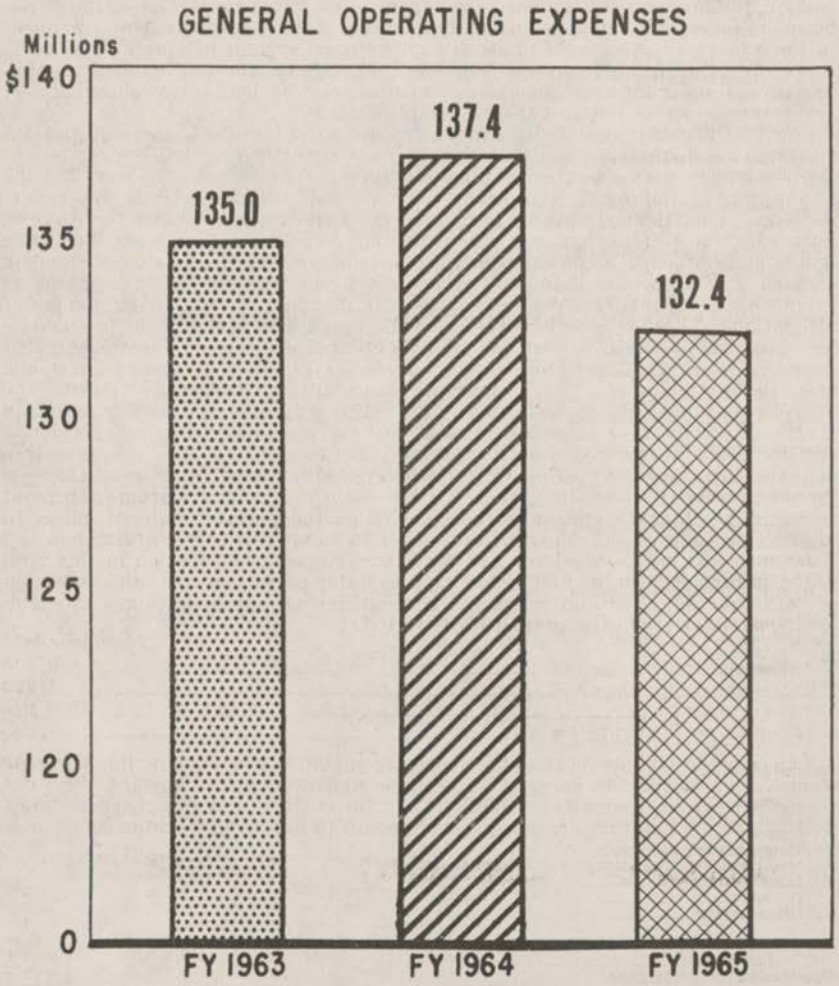
Workload consolidations will continue to be systematically evaluated.

Organizational realinements will be assessed to uncover better ways to accomplish and control our objectives in keeping with current and changing requirements.

Automatic data processing will be fully exploited to determine additional benefits and savings that can be accomplished within present programs and to uncover new programs and activities that can be adapted to automation.

Manpower utilization controls and improvement techniques will be explored in even greater degree. New methods and sources will be reviewed and utilized where applicable. Application of automation to this vital and important management responsibility will be assessed.

Actual and estimated costs for fiscal years 1963 through 1965 are indicated below.



Comparative summary of requirements—Detailed object and subobject of expenditures

SUMMARY OF EMPLOYMENT REQUIREMENTS BY ACTIVITY

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment:				
Central office	678	673	638	−35
Manager	319	319	318	−1
Chief attorney	1,552	1,450	1,390	−60
Contact	1,003	905	850	−55
Compensation and pension	3,645	3,330	3,340	+10
Vocational rehabilitation and education	649	580	470	−110
Loan guarantee	2,705	2,772	2,740	−32
Insurance	1,852	1,390	1,259	−131
Office services	5,405	5,354	5,179	−175
Total average employment	17,808	16,773	16,184	−589
Cost, personnel compensation:				
Central office	6,125,795	6,509,000	6,357,500	−151,500
Manager	3,132,887	3,329,000	3,441,000	+112,000
Chief attorney	11,204,558	11,247,000	11,017,000	−230,000
Contact	7,003,434	6,683,000	6,469,000	−214,000
Compensation and pension	26,860,161	26,679,000	27,518,000	+839,000
Vocational rehabilitation and education	5,151,646	4,966,000	4,140,000	−826,000
Loan guarantee	17,351,751	18,928,000	19,122,000	+194,000
Insurance	10,402,264	8,270,000	7,731,000	−539,000
Office services	28,290,253	29,069,000	28,656,000	−413,000
Total personnel compensation	115,522,749	115,680,000	114,451,500	−1,228,500
Personnel benefits	8,794,527	8,916,000	8,826,000	−90,000
Total personnel compensation and benefits	124,317,276	124,596,000	123,277,500	−1,318,500
Travel and transportation of persons:				
Employee	1,977,710	1,905,000	1,868,000	−37,000
Local	199,663	195,600	190,600	−5,000
Beneficiary (V.R. & E.)	251,734	315,000	223,000	−92,000
Hire of GSA motor vehicles (passenger)	272,390	285,000	285,000	
Total	2,701,497	2,700,600	2,566,600	−134,000

SUMMARY OF REQUIREMENTS BY MAJOR CATEGORY

Average employment	17,808	16,773	16,184	−589
Personnel compensation	$115,522,749	$115,680,000	$114,451,500	−$1,228,500
Personnel benefits	8,794,527	8,916,000	8,826,000	−90,000
Total personal services and benefits	124,317,276	124,596,000	123,277,500	−1,318,500
Miscellaneous operating cost	9,206,781	9,270,600	8,710,500	−560,100
Equipment	788,425	2,237,400	572,000	−1,665,400
Travel employees (0.007)	1,977,710	1,905,000	1,868,000	−37,000
V.R. & E. other objects	2,692,589	3,384,000	1,995,000	−1,389,000
Total cost	138,982,781	141,393,000	136,423,000	−4,970,000
Common service adjustment (−)	4,004,676	3,955,000	3,986,000	−31,000
Net cost	134,978,105	137,438,000	132,437,000	−5,001,000

SUMMARY OF REQUIREMENTS BY ACTIVITY

Central office	$9,632,570	$11,171,600	$10,023,600	−$1,148,000
Field:				
Manager	3,441,841	3,652,000	3,766,000	+114,000
Chief attorney	12,608,336	12,698,000	12,449,000	−249,000
Contact	7,634,432	7,273,000	7,036,000	−237,000
Compensation and Pension	28,931,850	28,770,000	29,675,000	+905,000
Vocational Rehabilitation and Education	8,463,745	8,938,000	6,633,000	−2,305,000
Loan Guarantee	20,032,407	21,786,000	21,946,000	+160,000
Insurance	11,249,698	8,917,000	8,342,000	−575,000
Office services	36,987,902	38,187,400	36,552,400	−1,635,000
Total, Department of Veterans Benefits jurisdiction	138,982,781	141,393,000	136,423,000	−4,970,000
Common service adjustment	−4,004,676	−3,955,000	−3,986,000	−31,000
Net cost	134,978,105	137,438,000	132,437,000	−5,001,000

SUMMARY OF MAJOR WORKLOADS

Mr. EVINS. We will turn to the "Summary of major workloads." These are cases, are they not, Mr. Administrator?

Mr. GLEASON. What page?

Mr. EVINS. Pages 8–11 and 8–12.

Mr. GLEASON. Yes. Would you like to know the total of new claims, approximately?

Mr. EVINS. Tell us the total number of contacts you made.

Mr. GLEASON. Personal interviews in the far column we estimate at 2,546,000.

Mr. EVINS. These are not totaled. They are just totaled for each one?

Mr. GLEASON. Yes.

Mr. EVINS. What about compensation and pension?

Mr. GLEASON. The same thing, sir. Out of compensation and pension there are certain figures which are shown separately. I would like to call particular attention to initial disability claims, 156,000; new death claims, 145,000; new insurance claims, 29,000; burial and accrued reimbursement claims, 246,000; for a total of 576,000 new claims.

Mr. EVINS. Well, you have a tremendous amount of work.

We will place pages 8–11 and 8–12 in the record.

(The pages follow:)

Summary of major workloads

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate
1. Chief attorney:			
Total wards (end of year)	530,121	548,000	556,000
Accounts audited	400,775	269,000	169,200
Field examinations completed	157,358	193,410	195,350
2. Contact:			
Personal interviews	2,793,430	2,598,000	2,546,000
Telephone interviews	2,720,036	2,411,000	2,311,000
Applications and forms	1,693,407	1,546,600	1,505,000
Correspondence prepared	756,761	689,500	665,500
Counter interviews	296,591	263,000	247,000
3. Compensation and pension:			
Initial disability claims	178,854	172,000	156,000
Nonoriginal claims	318,197	288,000	280,000
Dependency and income claims	612,034	711,000	775,000
New death claims	132,147	140,000	145,000
Insurance claims	40,036	42,000	44,000
Burial and accrued reimbursement claims	222,940	238,000	246,000
Notices of disagreement	6,346	35,000	36,000
4. Vocational rehabilitation and education:			
Average number of trainees:			
Vocational rehabilitation	4,290	6,000	7,000
Readjustment training	50,020	25,000	7,300
War orphans	15,573	15,500	15,000
Cases of counseling:			
VA	24,117	15,000	15,000
Fee basis	12,782	32,000	18,000
5. Loan guarantee:			
Appraisal requests received (units)	350,639	344,600	329,500
GI loan applications received	215,184	208,000	195,000
GI loans closed	203,065	190,000	175,000
Direct loan applications received	32,798	24,000	22,400
Direct loans closed and disbursed	18,488	15,000	10,000
Average number of loans owned	226,809	216,800	224,200
Paraplegic grants disbursed	350	400	400
Defaults reported	107,945	106,400	104,700
Claims processed	22,940	22,600	16,000
Property acquisitions	25,243	25,400	21,500

Summary of major workloads—Continued

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate
6. Insurance:			
Policies in force	5,967,000	5,887,000	5,806,000
Remittances	22,554,456	22,180,000	21,815,000
Loans and surrenders	128,390	134,000	139,000
Adjustments	894,500	1,022,000	1,017,000
Underwriting actions	530,631	497,000	485,000
Correspondence	1,270,234	1,248,000	1,126,000
Disability claims	21,958	20,000	19,000
Termination cases audited	78,796	79,000	79,000
7. Administrative:			
Incoming mail	49,851,789	49,481,000	47,686,000
Folder lookups	34,444,000	32,090,000	31,100,700
8. Finance:			
Veteran benefit transactions	13,124,679	11,648,636	9,841,749
ADP input transactions	403,000	900,000	1,200,000
Other accounting transactions	3,076,946	3,063,964	2,947,345
Loan accounts maintained	3,191,718	3,091,087	3,166,399

Compensation and Pension Field

Mr. Evins. "Compensation and pension field"; we discussed this to some extent. Mr. Reporter, insert page 8–38.

(The page follows:)

General Operating Expenses

COMPENSATION AND PENSION FIELD, $29,675,000

Mission

The mission of the compensation and pension program is to administer equitably and uniformly all laws relating to the payment of compensation, pension, and related benefits to veterans and their dependents.

Highlights

During fiscal year 1963, more than $3.8 billion in benefits were paid to veterans and their dependents. These payments involved compensation and pension allowances to an average of over 4.8 million beneficiaries, of which 2 million were veterans receiving compensation, 1.2 million were veterans receiving disability pension, and 1.6 million were dependents of deceased veterans receiving either compensation or pension. Workloads incident to these payments are reflected in the workload table on pages 8–39.

A realinement of activities was affected during fiscal year 1963. The clerical functions incident to Flexowriter input processing, award notice letter typing, and coding of certain items on basic automatic data-processing input forms heretofore performed by adjudication divisions were transferred to the finance divisions. This grouped all ADP activities in our regional offices into one organizational element.

During fiscal year 1963 field stations submitted many recommendations on improving manpower utilization in the compensation and pension service. The recommendations covered a wide range of compensation and pension activities; such as, ratings (general), income questionnaire procedures, apportioned awards, ADP procedures, etc. Some require legislative changes, some require changes to VA regulations and procedures, and others are now receiving study by central office. In general, the recommendations represent constructive thinking and an earnest desire to improve methods and procedures with the resultant effect in better manpower utilization.

Summary of requirements

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	3,645	3,330	3,340	+10
Personnel compensation	$26,860,161	$26,679,000	$27,518,000	+$839,000
Personnel benefits	2,029,237	2,056,000	2,122,000	+66,000
Total personal services and benefits	28,889,398	28,735,000	29,640,000	+905,000
Travel and transportation of persons	42,452	35,000	35,000	
Total cost	28,931,850	28,770,000	29,675,000	+905,000

Mr. EVINS. You state that the increase of 10 man-years in average employment in fiscal year 1965 is due to an increase in the aggregate workload in such work areas as dependency and income claims, new death claims, and burial and accrued reimbursement claims.

Mr. GLEASON. And insurance claims. We also need between 118 and 121 people for a statement of the case which we went into yesterday.

Mr. EVINS. How do you identify nonoriginal claims?

Mr. BRICKFIELD. That is a claim that is reopened either for an increase in benefits or something of that nature.

Mr. EVINS. Does the Veterans Administration do this on its own initiative or after some veteran or officer requests it?

Mr. FARMER. Both of them come from the veteran or his representative.

Mr. EVINS. In other words, you do not originate any of these claims on your own?

Mr. FARMER. No, sir.

Mr. EVINS. You will not initiate anything to see that a veteran is getting his rights under the law?

Mr. FARMER. Not in this category.

Mr. EVINS. Off the record.

(Discussion off the record.)

Mr. BRICKFIELD. When a veteran dies, we get in touch with the widow and tell her what the possible claims could be, either for compensation or pension or insurance, etc.

Mr. EVINS. That is a real service.

Mr. BRICKFIELD. Yes, sir.

VOCATIONAL REHABILITATION AND EDUCATION—FIELD

Mr. EVINS. "Vocational rehabilitation and education." Insert pages 8–43, 8–44, and 8–45.

(The pages follow:)

VOCATIONAL REHABILITATION AND EDUCATION, FIELD, $6,633,000

Mission

The objective of the vocational rehabilitation and education program is threefold: (1) To provide vocational rehabilitation needed by Korean conflict, World War II, and peacetime (Public Law 87–815) veterans with service-connected

disabilities; (2) to provide readjustment education and training to veterans of the Korean conflict or World War II; and (3) to provide vocational and educational assistance to children of veterans who died as a result of service in the Armed Forces.

Highlights

During fiscal year 1963 a most significant happening affecting the vocational rehabilitation and education program was the enactment of Public Law 87–815. This law affords vocational rehabilitation to veterans (peacetime) with disabilities incurred between World War II and the Korean conflict or after the Korean conflict. The law also removes the final termination date for vocational rehabilitation for those veterans disabled during the Korean conflict.

To cope with the counseling workload generated by the new law and the increase in war orphans trainees, a shifting to fee-basis counseling was adopted. Use of guidance center facilities as a resource to supplement VA staffing was also instituted. As of July 1, 1963, contractual arrangements with 98 guidance centers were in effect.

Progress continues in the consolidation of vocational rehabilitation and education locations. Seven consolidations were accomplished during 1963, bringing the number of consolidations completed to 40. This leaves 27 offices with vocational rehabilitation and education responsibilities.

Reajustment training and education.—During fiscal year 1963, 8,000 Korean conflict veterans started readjustment training—this brought the total to 2,381,000 Korean conflict veterans who have trained under this program. The monthly average of Korean conflict veterans in training during fiscal year 1963 was 50,000, with the peak enrollment being about 76,000 in November 1962. Korean conflict veterans were paid education and training allowance of about $63 million during fiscal year 1963. This was a decrease of 48 percent from the $121 million paid during fiscal year 1962. During the past fiscal year $0.7 million was paid to educational institutions for preparing and submitting required certifications on veterans attending the institutions.

Educational assistance for orphans.—During fiscal year 1963, 13,000 orphans entered training. The total orphans entered training thus far is 56,200. The monthly average number of orphans in training in fiscal year 1963 was 15,600, with a peak training load of 24,500 orphans in training during December 1962. Payments of educational assistance amounted to $25.7 million during fiscal year 1963, or an increase of 20.3 percent over fiscal year 1962.

Vocational rehabilitation.—During fiscal year 1963, 1,800 disabled Korean conflict veterans and 900 World War II veterans entered vocational rehabilitation training for the first time. Also, 1,400 peacetime veterans (Public Law 87–815) whose disabilities were incurred during the period between World War II and the Korean conflict or since January 31, 1955, enrolled for vocational rehabilitation training. The monthly average number of disabled veterans in training was 4,300, with a peak training load of 4,500 veterans in November 1962.

Summary of requirements

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	649	580	470	−110
Personnel compensation	$5,151,646	$4,966,000	$4,140,000	−$826,000
Personnel benefits	380,990	375,000	313,000	−62,000
Total personal services and benefits	5,532,636	5,341,000	4,453,000	−888,000
Travel and transportation of persons	476,765	515,000	398,000	−117,000
Other services	1,594,679	2,282,000	1,307,000	−975,000
Grants to States	859,665	800,000	475,000	−325,000
Total cost	8,463,745	8,938,000	6,633,000	−2,305,000

Average employment

Estimated workload for fiscal year 1965 will require an average employment level of 470. This is a decrease of 110 man-years from the estimate for 1964 and 179 man-years from 1963. Personnel requirements are developed on the basis of measurable workload. There is not a constant relationship between the aggregate number of trainees of all types and man-years requirements. During fiscal year 1963, the volume of trainees under readjustment training dominated the trend of the combined training load but required fewer man-years per trainee. Vocational rehabilitation and war orphans training load, which is more complex, require more man-years per trainee. This is due to the counseling workload which is required under these two programs. By fiscal year 1965, the training load under vocational rehabilitation and war orphans will dominate the trend of the combined training load. This reversal in the composition of the training load is due to the decline of Korean conflict and World War II veterans eligible to initiate readjustment training and an increase in vocational rehabilitation training for disabled peacetime veterans resulting from enactment of Public Law 87–815 coupled with the continuation of war orphan trainees at about the fiscal year 1964 level.

Workloads supporting the above employment requirements are as follows:

Workloads	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
A. Monthly average in readjustment training, ch. 33: Korean conflict:			
Higher learning	32,476	16,640	4,890
Below college	12,203	5,550	1,710
Correspondence	4,333	2,460	620
On farm	520	130	30
Job training	480	220	50
Total	50,012	25,000	7,300
World War II	8		
Total readjustment training	50,020	25,000	7,300
Vocational rehabilitation, ch. 31:			
Higher learning	1,070	1,870	2,260
Below college	2,466	3,560	4,100
On farm	188	160	190
Job taining	566	410	450
Total vocational rehabilitation	4,290	6,000	7,000
War orphans, ch. 35:			
Higher learning	12,831	13,100	12,900
Below college	2,742	2,400	2,100
Total war orphans	15,573	15,500	15,000
Total all trainees	69,883	46,500	29,300
B Counseling cases disposed of:			
Veterans' Administration	24,117	15,000	15,000
Contract (fee basis)	12,782	32,000	18,000
Total	36,899	47,000	33,000

Mr. EVINS. Do you want to explain the chart on page 8–45 for the record, the workload in respect to different categories of veterans? This is in your training program.

Mr. BRICKFIELD. Yes, this is in our vocational rehabilitation and education program.

The first workload, "A readjustment training," is for the Korean veterans. This program ends on January 31, 1965, and, as you can see, it goes down from 25,000 in 1964 to 7,300 in 1965. So this is a phasing-out program.

In vocational rehabilitation we have an increase of 1,000. This is due principally to the recent law which granted vocational rehabilitation to peacetime veterans.

The war orphans is dropping from 15,500 to 15,000.

The total reduction for all trainees is from 46,500 to 29,300.

In addition to that, we counsel our veterans, particularly the people who are in need of vocational rehabilitation training. Here you can see that the counseling workload will be drastically reduced from 47,000 to 33,000.

Mr. EVINS. Tell us what level of education this training is. Is it higher level, intermediate, or what?

Mr. BRICKFIELD. I would say it is principally in the higher level. Ninety percent of the war orphan training is at the higher level. Out of the 15,000 shown on page 8–45, 12,900 are in college and only 2,100 are below the college level.

In vocational rehabilitation, however, where we give them on-the-job training and the like, out of 7,000, 4,100 are below college level and 2,260 in college.

Mr. EVINS. This table shows the programs are being reduced. Is there a corresponding reduction in employees?

Mr. BRICKFIELD. Yes; we are coming down 110 in average employment in the program in fiscal 1965.

LOAN GUARANTEE PROGRAM

Mr. EVINS. We will turn to the loan guarantee program.

Place in the record page 8–52.

(The page follows:)

GENERAL OPERATING EXPENSES

LOAN GUARANTEE, FIELD, $21,946,000

Mission

Through the loan guarantee program, the Government guarantees or insures loans made by private lending institutions to veterans for homes, farms, and businesses; makes direct loans to veterans for homes in areas where private housing credit is short; and makes grants to paraplegic veterans for specially adapted housing. The program also services, liquidates, sells, and otherwise disposes of properties and loans owned as a consequence of underwriting and making loans.

Highlights

During fiscal year 1963, GI loan activity continued to trend upward. Nearly 206,000 home, farm, and business loans, amounting to $2.9 billion, were guaranteed or insured. Loan applications received during fiscal year 1963 increased about 10 percent over fiscal year 1962.

The VA, during fiscal year 1963, acquired 25,243 properties. This was an increase of 4,078 acquisitions over fiscal year 1962. However, sales of acquired

properties increased during the year by 5,413, to 19,387, leaving 23,783 properties on hand at the end of the year.

During fiscal year 1963, 18,488 direct loans were made, bringing the cumulative total to 227,069. Loans as of June 30, 1963, amounted to nearly $2 billion.

During fiscal year 1963, $181.2 million in direct loans and $279.3 million in vendee accounts were sold to private investors.

Summary of requirements

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	2,705	2,772	2,740	−32
Personnel compensation	$17,351,751	$18,928,000	$19,122,000	+$194,000
Personnel benefits	1,307,833	1,458,000	1,474,000	+16,000
Total personal services and benefits	18,659,584	20,386,000	20,596,000	+210,000
Travel and transportation of persons	499,939	500,000	500,000	
Other services	872,884	900,000	850,000	−50,000
Total cost	20,032,407	21,786,000	21,946,000	+160,000

Mr. Evins. Give us a brief summary of the operating expenses for the loan guarantee program. You are requesting $21,946,000 which is an increase of $160,000. Most of this is taken up in personal service and benefits.

Mr. Brickfield. We have an overall decrease of $210,000 in this program between 1964 and 1965, but we plan on losing 32 people.

Mr. Ostertag. Did you say an increase or decrease?

Mr. Brickfield. This is an increase of $210,000 and this is attributable, Mr. Ostertag, to the pay increases.

Mr. Ostertag. I thought you said decrease.

Mr. Brickfield. I did. I meant a decrease in personnel.

Mr. Evins. Page 8–52 shows the average employment is down 32; personnel compensation is up from $18,928,000 to $19,122,000, an increase of $194,000; and personnel benefits are up from $1,458,000 to $1,474,000 or $16,000, making a total increase of $210,000 in that category.

Mr. Gleason. This is attributable to the pay raise and the within-grade promotions.

WORKLOADS—LOAN GUARANTEE

Mr. Evins. We will put the workload table on page 8–53 in the record.

(The table follows:)

Workloads

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate
Appraisal requests received (units)	350,639	344,600	329,500
GI loan applications	215,184	208,000	195,000
GI loans closed	203,065	190,000	175,000
Direct loan applications received	32,798	24,000	22,400
Direct loans closed and disbursed	18,488	15,000	10,000
Average number of loans owned	226,809	216,800	224,200
Paraplegic grants	350	400	400
Defaults reported	107,945	106,400	104,700
Claims processed	22,940	20,600	16,000
Property acquisitions	25,243	25,400	21,500

Mr. EVINS. What is the workload situation?

Mr. BRICKFIELD. Generally, Mr. Evins, there is a decrease. For example, in appraisal requests received we go from 344,600 to 329,500. In GI loan applications there is a drop from 208,000 to 195,000. In GI loans actually closed there is a drop from 190,000 to 175,000. In our direct loan applications received there is a drop from 24,000 to 22,400. In direct loans closed and disbursed there is a drop from 15,000 to 10,000.

Mr. EVINS. These figures are significant. They indicate you closed or disbursed or approved less than 50 percent of the applications received. Is that about the right figure?

Mr. GLEASON. That is about right.

Mr. DERVAN. We have an attrition in those received due to the fact the property is not appraised at a value equal to the sale price or the applicants do not qualify from a credit standpoint.

RURAL AND URBAN LOANS

Mr. EVINS. What is the percentage of guaranteed loans for people in the city in comparison to the number received and approved? Then what is the rural situation?

Mr. DERVAN. Roughly, you can get a good idea from these figures; 208,000 applications——

Mr. EVINS. That includes all types; does it not?

Mr. DERVAN. Yes; home, farm, and business.

Mr. EVINS. I want to compare the rural against the city.

Mr. DERVAN. I would say in respect to direct loans, or rural loans, there is a very considerable attrition. It is presently running 40 percent of the applications that are received.

Mr. EVINS. What percentage of applications for veterans in the cities are disapproved?

Mr. DERVAN. I would say not more than 10 percent.

Mr. EVINS. What is the reason for that?

Mr. DERVAN. With respect to the GI home loans the veteran makes an application to the lender and the lender submits the loan to us for prior approval. If the lender is not satisfied that the loan will be approved by the VA, he will reject it in the first instance and it does not come in to the VA; whereas in the direct loan field the veteran makes the application direct to the VA office.

Mr. EVINS. Is there anything the Veterans Administration can do to improve that situation as to the rural applicants?

Mr. BRICKFIELD. We have no waiting list, Mr. Evins. We have very little downpayment and long terms and the only thing that would prevent an applicant from getting the loan is that his credit is not sufficient.

Mr. EVINS. The man's credit in the city is better than the credit of the man in the country, is it?

Mr. DERVAN. No. There are more of them.

Mr. EVINS. I do not think the man in the city is any more honorable than the man in the country.

Mr. DRIVER. I think Mr. Dervan indicated the banks are washing out the applications in the city.

Mr. GLEASON. We have no way of knowing how many the banks have turned down as poor credit risks.

Mr. OSTERTAG. You mean before they get to you?

Mr. DRIVER. Yes.

Mr. OSTERTAG. Before they come to your attention the banks have turned them down?

Mr. GLEASON. Probably 90 percent of all washouts would have already been turned down.

Mr. DRIVER. As you know, Mr. Evins, the economic stability of the rural area shows up more favorably than that in the city.

INCREASE IN LOAN AMOUNTS

Mr. OSTERTAG. What about property values? Is that shifting to any great degree?

Mr. DERVAN. I think what is most indicative of that is the average loan. It has crept up substantially since 1950. As I recall back in 1950 the average loan was about $6,000 in the GI loan program. By 1955 it had crept to $10,700, and by 1963 to more than $14,000, and today it is close to $15,000.

Mr. OSTERTAG. Are you speaking of new homes?

Mr. DERVAN. I am talking about average.

LOANS FOR NEW HOMES AND EXISTING PROPERTIES

Mr. OSTERTAG. On these GI loans, are they associated primarily with new homes or resales?

Mr. DERVAN. It is rather interesting to note that in the last 2 years, since 1961, there has been almost a complete reversal. For example, in 1961, about 70 percent of the GI loans made were made to finance the purchase of new homes and about 30 percent were made to finance the purchase of existing previously occupied homes.

Due to the fact that there has been an adequate supply of financing generally in the past 2 years, in 1963 the situation had reversed so that in 1963 about 60 percent of the loans made under the GI program were made to purchase existing previously occupied homes and only 40 percent to purchase newly constructed homes.

Mr. OSTERTAG. What is the real cause of that shift?

Mr. DERVAN. I think it is primarily due to two things, sir. Prior to the last couple years, and especially prior to 1961, money was quite tight. Our interest rate is at the statutory maximum of 5¼ percent. Therefore, rather substantial discounts prior to 1961 were involved in the making of a GI loan by a lender. As the money market loosened and financing became rather abundant generally, the discount lessened and today the discount is such that people owning previously occupied property are willing to absorb that discount, and this accounts to a large extent for the shift from the newly constructed housing being predominant to previously occupied housing, which is now predominant.

Mr. EVINS. These veterans are only entitled to one guaranteed loan. Would you say the entitlements are being used up?

Mr. DERVAN. I think the significant factor is that today about 70 percent of the GI loans are being obtained by Korean veterans and only 30 percent by World War II veterans.

Mr. GLEASON. I think we should point out that it is possible for a GI to get more than one GI home loan. If he is relocated and the first one is paid off he can apply for another one.

LOAN GUARANTEE EMPLOYMENT

Mr. THOMAS. I cannot find where you set up the location of your personnel in your loan guarantee program.

Mr. MONK. They are located in the 54 regional offices.

Mr. THOMAS. How many are in the District of Columbia?

Mr. DERVAN. We do not have a list office by office.

Mr. BRICKFIELD. The field strength is listed on page 8–54.

Mr. DRIVER. Those are all in the regional offices.

Mr. THOMAS. You set it out by activity but where are they located?

Mr. DRIVER. In 54 of the 66 regional offices.

Mr. THOMAS. How many are there in the District of Columbia?

Mr. MONK. 74.

Mr. THOMAS. Where is that set out?

Mr. MONK. On page 8–20, down at the bottom.

Mr. OSTERTAG. That is a complete breakdown of the whole office?

Mr. MONK. Yes; of the Department of Veterans Benefits.

Mr. THOMAS. Where is the figure for the loan guarantee program?

Mr. MONK. 74.

Mr. THOMAS. Why not insert in the record at this point the location of your people: 74 in the District of Columbia and the other people in the field.

What are the duties of the people here in the District of Columbia in this regard? Do you make any loans here in headquarters?

Mr. BRICKFIELD. Mr. Chairman, the people in the District of Columbia have overall responsibility for the policies which set up the guidelines for our loan guarantee program.

Mr. OSTERTAG. Does it take 74 people to do that?

Mr. BRICKFIELD. Yes, it does, Mr. Ostertag. If I may direct your attention to page 8–52, our mission is set out there.

Mr. THOMAS. We have already read that, and it is in the record.

Mr. OSTERTAG. That is the loan guarantee program generally.

Mr. THOMAS. You are asking for 2,740, a reduction of 32; and you have 74 in the District of Columbia.

Mr. MONK. The 74 are in addition to the 2,740.

Mr. THOMAS. Why do you not put them in there?

Mr. GLEASON. This is just the field personnel, on this page 8–52.

Mr. THOMAS. At page 8–52 you say (reading):

The VA, during fiscal year 1963, acquired 25,243 properties. This was an increase of 4,078 acquisitions over fiscal year 1962. However, sales of acquired properties increased during the year by 5,413, to 19,387, leaving 23,783 properties on hand at the end of the year.

You say these 2,740 people are in the 66 offices?

Mr. GLEASON. Yes.

Mr. THOMAS. Why do you not insert a table showing the number for the last 5 years for each one, and the number in the District of Columbia?

Mr. GLEASON. All right, Mr. Chairman, we will do that.

(The information supplied follows:)

Actual loan guarantee full-time employment in Department of Veterans Benefits field stations and central office

Stations	June 30, 1959	June 30, 1960	June 30, 1961	June 30, 1962	June 30, 1963
Alabama: Montgomery	46	45	55	58	59
Alaska: Juneau		(1)			
Arizona: Phoenix	23	21	24	27	36
Arkansas: Little Rock	26	26	25	31	27
California:					
Los Angeles	158	149	153	184	190
San Francisco	108	88	92	108	107
Colorado: Denver	39	38	45	56	57
Connecticut: Hartford	18	18	14	16	17
Delaware: Wilmington [2]					
District of Columbia: Washington	35	24	25	25	28
Florida: St. Petersburg	77	71	87	104	125
Georgia: Atlanta	68	64	66	68	75
Hawaii: Honolulu	5	5	3	4	4
Idaho: Boise	18	16	17	19	19
Illinois: Chicago	84	81	90	111	112
Indiana: Indianapolis	48	48	50	57	55
Iowa: Des Moines	29	24	25	27	27
Kansas: Wichita	32	35	52	60	57
Kentucky: Louisville	40	41	42	43	41
Louisiana:					
New Orleans	28	38	47	54	51
Shreveport [3]	19	10			
Maine: Togus	21	17	20	23	23
Maryland: Baltimore	48	42	45	47	42
Massachusetts: Boston	97	76	77	73	71
Michigan: Detroit	102	123	130	144	161
Minnesota: St. Paul	45	54	55	73	83
Mississippi: Jackson	34	34	36	40	40
Missouri:					
Kansas City	42	38	40	43	46
St. Louis	27	27	28	35	36
Montana: Fort Harrison	15	13	13	17	17
Nebraska: Lincoln	14	13	14	16	18
Nevada: Reno [4]	4				
New Hampshire: Manchester	16	12	13	13	13
New Jersey: Newark	88	66	55	63	61
New Mexico: Albuquerque	22	21	18	22	22
New York:					
Albany [5]	13	3			
Brooklyn		(1)			
Buffalo	29	22	21	21	21
New York	97	77	67	75	78
Syracuse [6]	23	14	14		
North Carolina: Winston-Salem	49	49	55	63	62
North Dakota: Fargo [7]	14	5			
Ohio:					
Cincinnati	49	45	44	53	54
Cleveland	42	48	54	66	70
Oklahoma: Muskogee	40	41	41	48	48
Oregon: Portland	24	19	18	20	20
Pennsylvania:					
Philadelphia	90	74	74	79	80
Pittsburgh	36	37	39	43	41
Wilkes-Barre	26	24	24	25	24
Puerto Rico: San Juan	14	17	15	15	16
Rhode Island: Providence [8]					
South Carolina: Columbia	39	37	33	37	37
South Dakota: Sioux Falls [9]	14	13	13		
Tennessee: Nashville	46	39	41	46	46
Texas:					
Dallas	33	31	42	47	39
Houston	46	49	55	61	60
Lubbock	35	29	38	43	51
San Antonio	35	40	45	48	47
Waco [10]	14	13			15

See footnotes at end of table.

Actual loan guarantee full-time employment in Department of Veterans Benefits field stations and central office—Continued

Stations	June 30, 1959	June 30, 1960	June 30, 1961	June 30, 1962	June 30, 1963
Utah: Salt Lake City	21	20	21	24	23
Vermont: White River Junction	9	8	7	6	5
Virginia: Roanoke	50	51	52	58	55
Washington: Seattle	56	48	40	46	49
West Virginia: Huntington	33	33	31	31	30
Wisconsin: Milwaukee	29	30	29	36	32
Wyoming: Cheyenne [11]	10	7			
Central office	68	68	65	66	76
Grand total	2,560	2,369	2,434	2,718	2,799

[1] Not available.
[2] Consolidated with Philadelphia, May 1, 1959.
[3] Consolidated with New Orleans, May 31, 1960.
[4] Consolidated with San Francisco, May 1, 1960.
[5] Consolidated with New York, April 1, 1960.
[6] Consolidated with New York, May 31, 1962.
[7] Consolidated with St. Paul, June 1, 1960.
[8] Consolidated with Boston, June 1, 1960.
[9] Consolidated with St. Paul, May 31, 1962.
[10] Consolidated with Dallas, Aug. 31, 1960; Waco reactivated, Feb. 1, 1963.
[11] Consolidated with Denver, June 1, 1959.

FORECLOSURE LOCATIONS

Mr. THOMAS. Mr. Brickfield, I think you said your foreclosures were mostly in five States?

Mr. BRICKFIELD. Eighty-five percent of the foreclosures are in 12 locations.

Mr. THOMAS. Where are they?

Mr. BRICKFIELD. Texas, Michigan, Kansas, Illinois, Florida, California——

Mr. DERVAN. Ohio, Pennsylvania, Louisiana, Alabama, Washington, and New Jersey.

Mr. THOMAS. The State of Washington?

Mr. DERVAN. Yes.

Mr. THOMAS. How many States is that?

Mr. DERVAN. Eighty-four percent in 12 States.

CENTRAL OFFICE LOAN SUPERVISION

Mr. THOMAS. What is your employment picture? If 84 percent of your total employment is in those 12 States, there ought to be a reduction in this.

Mr. GLEASON. We will furnish those figures, Mr. Chairman.

Mr. THOMAS. Can you give us a bird's-eye view?

Mr. BRICKFIELD. In addition to handling the acquired properties which we try to sell, the people in our regional offices also handle the day-to-day work of receiving direct loan applications and the usual work of the office. These properties——

Mr. THOMAS. The work is all done in the field so why do you need 74 people in the District of Columbia?

Mr. BRICKFIELD. Primarily to supervise this work.

Mr. THOMAS. If you would put them in the field it might help a little.

Mr. BRICKFIELD. Every day we get literally a dozen problem cases that come into the central office.

Mr. THOMAS. You think you are better able to handle them here than in the field? In dealing with a foreclosure, you might have sickness in the family or other circumstances. These hardship cases come up a hundred times a year, do they not?

Mr. BRICKFIELD. Yes, but we keep a close look at finances. If a loan guaranty officer in Philadelphia receives an offer on a bulk package of 10 homes, we require it to come in to the central office to see if the price is right. We compare what is done in Philadephia with what is done in Chicago and Los Angeles to have uniform rules.

Mr. THOMAS. I understand the situation in Los Angeles is different from in Chicago and the real estate values are different.

Mr. BRICKFIELD. That is true.

Mr. THOMAS. Why could you not send that to the field office? They made the loan, did they not?

Mr. BRICKFIELD. The banks, for the most part, make the loans, then we guarantee them.

Mr. THOMAS. We use that as an interchangeable term.

Mr. BRICKFIELD. No, sir. Banks are supervise lenders. They make the loans automatically and then we guarantee them.

Mr. THOMAS. Except that you do make the direct loans.

Mr. BRICKFIELD. Yes, when the property is located in the rural area.

Mr. DERVAN. Only certain types of lenders make the loans automatically. Most of them are submitted to the VA for prior approval.

Mr. THOMAS. All the activity is in the field. The loans are made there and the foreclosing is done there. What is so important in your functions here? If you are taking the responsibility of overseeing all of this, do you take the responsibility for the 25,000 foreclosures too? You cannot take credit for the sunshine unless you take credit for the rain. You take credit for overseeing all of it. Do you take credit for the 25,000 foreclosures too?

Mr. BRICKFIELD. We take the responsibility, yes, sir.

Mr. THOMAS. You are a brave man.

Mr. BRICKFIELD. Mr. Thomas, you do not just sell 25,000 houses by wishful thinking.

Mr. THOMAS. You do not just foreclose on 25,000 houses, either. Maybe somebody exercised poor judgment down the line.

Mr. GLEASON. Not necessarily.

Mr. THOMAS. What do you call it?

Mr. GLEASON. Economic factors come to bear on these situations.

Mr. BRICKFIELD. How did the VA make a poor judgment in Wichita, Kans., when Boeing Aircraft pulled out?

Mr. THOMAS. Did Boeing guarantee to have a plant in Wichita for 25 years, the length of your mortgage?

Mr. BRICKFIELD. No, sir.

Mr. THOMAS. Go ahead.

Mr. BRICKFIELD. Mr. Chairman, when the loan application was made in Wichita, say 5 or 6 years ago, the bank looked at the veteran's credit and at that time it looked good and for the foreseeable future

it was indicated he would have a steady job, and on that basis the loan was made. Suddenly the situation changed. This veteran then, was not a bad credit risk at the beginning. This was one that developed. I think that is a good example. And there are other examples in Detroit where automation came into play.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. THOMAS. Go ahead, Mr. Evins.

Mr. EVINS. I was preparing to turn to the insurance picture, Mr. Chairman.

Mr. GLEASON. Would you like a functional breakdown of our 74 personnel in the Washington office?

Mr. THOMAS. Yes. Mr. Brickfield said the managerial group lays down the guidelines and takes responsibility, and I guess they have to take the responsibility for the foreclosures. So let us get rid of the 74 people in Washington and the assumption is we will not have as large a foreclosure list.

Mr. GLEASON. We will supply you with that list.

(The information supplied follows:)

Number of employees on duty, Jan. 31, 1964

Function:	
Office of Director	4
Construction and valuation	13
Loan policy and management	26
Property management	10
Administration	21
Total	74

Mr. BRICKFIELD. I have just been handed the breakdown of the number of people in our loan guaranty division in each of our regional offices.

Mr. THOMAS. We will insert it in the record.

(The material referred to follows:)

Full-time employees in DVB field stations	*Loan guarantee*
Nov. 30, 1963	2,782
Dec. 31, 1963	2,796
Area 01	420
Connecticut: Hartford	17
Delaware: Wilmington	(1)
District of Columbia: Veterans Benefit Office	26
Maine: Togus	23
Maryland: Baltimore	40
Massachusetts: Boston	67
New Hampshire: Manchester	13
New Jersey: Newark	61
New York:	
Albany	(1)
Brooklyn	
Buffalo	21
New York	80
Syracuse	(1)
Pennsylvania:	
Pittsburgh	41
Wilkes-Barre	25
Rhode Island: Providence	(1)
Vermont: White River Junction	6

See footnotes at end table, p. 328.

Full-time employees in DVB field stations—Continued	*Loan guarantee*
Area 02	827
Alabama: Montgomery	861
Arkansas: Little Rock	24
Florida: St. Petersburg	138
Georgia: Atlanta	73
Louisiana:	
New Orleans	53
Shreveport	(2)
Mississippi: Jackson	40
North Carolina: Winston-Salem	63
Puerto Rico: San Juan	16
South Carolina: Columbia	38
Tennessee: Nashville	44
Texas:	
Dallas	
Houston	61
Lubbock	58
San Antonio	49
Waco	51
Virginia: Roanoke	58
Area 03	986
Illinois: Chicago	111
Indiana: Indianapolis	52
Iowa: Des Moines	27
Kansas: Wichita	63
Kentucky: Louisville	41
Michigan: Detroit	178
Minnesota: St. Paul	84
Missouri:	
Kansas City	45
St. Louis	38
Nebraska: Lincoln	18
North Dakota: Fargo	
Ohio:	
Cincinnati	54
Cleveland	79
Oklahoma: Muskogee	50
Pennsylvania: Philadelphia	79
South Dakota: Sioux Falls	(1)
West Virginia: Huntington	32
Wisconsin: Milwaukee	[2] 35
Area 04	563
Alaska: Juneau	
Arizona: Phoenix	38
California:	
Los Angeles	[3] 193
San Francisco	110
Colorado: Denver	64
Hawaii: Honolulu	4
Idaho: Boise	20
Montana: Fort Harrison	19
Nevada: Reno	(1)
New Mexico: Albuquerque	25
Oregon: Portland	18
Philippines: Manila	
Utah: Salt Lake City	24
Washington: Seattle	48
Wyoming: Cheyenne	(1)

[1] Function performed by other regional offices as a result of workload consolidation.
[2] Excludes 1 part-time employee.
[3] Excludes 2 part-time employees.

INSURANCE

Mr. EVINS. Place in the record pages 8–58 and 8–59 and 8–60. (The pages follow:)

GENERAL OPERATING EXPENSES

INSURANCE, FIELD, $8,342,000

Mission

The Insurance Service directs the operations of four insurance activities, authorized by statutes, for the benefit of veterans and servicemen policyholders and their beneficiaries. These are: U.S. Government life insurance that originated in World War I (USGLI), national service life insurance authorized in World War II (NSLI) and the two programs, veterans special life insurance (VSLI) and service-disabled veterans insurance (S–DVI), that were created during the Korean conflict by amendments to the basic National Service Life Insurance Act of 1940. The following summary gives the number of policies, and the total assets of the four insurance funds as of June 30, 1963:

Program	Policies in force (thousands)	Face value (millions)	Fund assets (millions)
U.S. Government life insurance	277	$1,220	$1,105
National service life insurance	4,961	32,275	6,197
Veterans special life insurance	645	5,700	110
Service-disabled veterans insurance	53	460	3
Total	5,936	$39,655	$7,415

Highlights

The operations in connection with the maintenance of insurance records are now concentrated in two VA centers located at Philadelphia, Pa., and St. Paul, Minn. During fiscal year 1963, maintenance of these records included the processing of 22,554,000 remittances, 168,000 reinstatements, adjudication of 22,000 disability claims, granting of 112,000 loans and 75,000 refunds. Approximately 2 million National Service Life Insurance records were converted to magnetic tape in our western offices. This brings the total number of converted records to 5.7 million since September 1959.

The insurance activity at Denver, Colo., was transferred to, and merged with, the insurance activity at St. Paul, Minn., effective June 3, 1963, with a resultant savings in fiscal year 1964 of 90 positions.

In fiscal year 1964, records for World War I insurance (USGLI) will be converted to ADP. Conversion costs will be recovered in less than 2 years, after which annual savings of about 20 man-years should be realized.

Summary of requirements

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment:				
Assistant manager for insurance	67	51	30	−21
Insurance accounts	1,532	1,110	1,019	−91
Underwriting and claims	253	229	210	−19
Total	1,852	1,390	1,259	−131
Personnel compensation	$10,402,264	$8,270,000	$7,731,000	−$539,000
Personnel benefits	791,123	637,000	601,000	−36,000
Total personal services and benefits	11,193,387	8,907,000	8,332,000	−575,000
Travel and transportation of persons	56 311	10,000	10,000	
Total cost	11,249,698	8,917,000	8,342,000	−575,000

Employment requirements for all measurable activities are determined by applying work performance standards to anticipated workloads. The standards have been validated to insure consistency with required quality as well as effective production. Operations are retested and new standards developed throughout each year to keep them in line with improvements from procedural and computer programing changes and increased employee effectiveness. Other work measurement techniques are used for developing staff consistent with overall requirements in nonmeasurable areas.

Reduction in employment from fiscal year 1963 to fiscal year 1964 was due to consolidation of the Denver and St. Paul offices at St. Paul, automatic data processing, increased efficiency and revised procedures.

Workloads supporting the above requirements are as follows:

	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965
Policies in force	5,967,000	5,887,000	5,806,000
Remittances	22,554,456	22,180,000	21,815,000
Loans and surrenders	128,390	134,000	139,000
Adjustments	894,500	1,022,000	1,017,000
Underwriting actions	530,631	497,000	485,000
Correspondence	1,270,234	1,248,000	1,126,000
Disability claims	21,958	20,000	19,000
Termination cases audited	78,796	79,000	79,000

TOTAL POLICIES IN FORCE

Mr. EVINS. Tell us about the number of policies in force and by classes and a general discussion of the insurance situation.

Mr. BRICKFIELD. On page 8–58 you can see the total number of policies in force are 5,936,000. The face value is $39,655 million, and the assets in the fund are $7,415 million.

These policies are broken down as follows: USGLI, World War I policies, 277,000; NSLI, which is generally World War II, 4,961,000; VSLI, which is a nonparticipating insurance issued to Korean veterans, 645,000; and S–DVI, which is issued to the service disabled, 53,000.

Mr. OSTERTAG. Will the Chairman yield?

Mr. EVINS. Yes.

REDUCTIONS DUE TO AUTOMATIC DATA PROCESSING

Mr. OSTERTAG. I have one general question with regard to the insurance program. I recall our discussions earlier about the consolidation of the Department of Insurance with the Department of Veterans' Benefits and that it is a dual or a joint operation.

Secondly, we have discussed and we have heard a great deal about the data processing program and its relationship to the insurance field. Yet there does not seem to be any substantial reduction in overhead in this field as compared to what it seems it should be due to the data processing and the consolidation of services and so on.

I am raising this question because maybe the future will unfold more of the point I am raising.

Mr. GLEASON. You will recall we asked for 48 personnel for Mr. Budd. At the top of page 8–59 you will note there is a reduction of 131 personnel.

Mr. OSTERTAG. I see that.

Mr. GLEASON. We just this past year completed the automation of our insurance accounts. This has brought about this decrease of 131 in the Department of Insurance. At the same time it has increased somewhat in the Department of Data Management, but the overall improvement is remarkable.

Mr. THOMAS. But it goes back to one thing, as far as automatic processing is concerned insurance is carrying Mr. Budd's operation?

Mr. GLEASON. No, sir. In compensation and pension——

Mr. THOMAS. He shows a reduction of 131 in insurance.

Mr. DRIVER. There is a 500 reduction in the other area.

Mr. THOMAS. Insurance is not as big as compensation and pension by any means and you know it.

Mr. DRIVER. No, sir. There should be very little reduction because all the accounts have been converted, but there will continue to be other reductions in programs.

Mr. THOMAS. This division is carrying the load in the consolidation.

Mr. DRIVER. That reduction has been made in the past.

Mr. GLEASON. When we automated compensation and pension payments, Mr. Chairman.

Mr. THOMAS. You did not have much reduction last year in compensation and pension.

Mr. GLEASON. It was made the year before.

Mr. THOMAS. What reduction do you have this year in compensation and pension that can be attributed to automation?

Mr. DRIVER. Not any because that was 2 years ago.

Mr. EVINS. Can you provide a table to show the reductions made in insurance, in compensation, and pension, and so forth?

Mr. GLEASON. Yes, sir.

Mr. BRICKFIELD. That is on page 2–4, Mr. Evins.

Mr. MONK. In 1960 we had 22,795 average employment in general operating expenses and we have 17,776 projected for 1965.

Mr. EVINS. I will have to have a little explanation of this one.

Mr. GLEASON. It does not give the breakdown.

Mr. EVINS. Give us one table showing the reductions by the various major divisions.

Mr. GLEASON. Yes, sir.

(The information supplied follows:)

Comparison of average employment from 1960 through 1965

Program	1960	1961	1962	1963 [1]	1964 [1]	1965 [1]
Staff offices	1,470	1,459	1,453	1,330	1,297	1,220
Chief attorney	1,518	1,550	1,555	1,552	1,450	1,390
Compensation and pension	3,785	3,950	3,926	3,645	3,330	3,340
Vocational rehabilitation and education	1,652	1,100	802	649	580	470
Loan guarantee	2,468	2,269	2,559	2,705	2,772	2,740
Office services	5,836	5,329	4,992	5,405	5,354	5,179
Insurance	4,122	3,814	3,439	1,852	1,390	1,259
Data management				818	872	920
All other	1,944	1,876	1,794	1,432	1,349	1,258
Total general operating expenses	22,795	21,347	20,520	19,388	18,394	17,776

[1] Fiscal years 1963, 1964, and 1965 reflect the following organizational changes: 1. Merger of Insurance with the Department of Veterans Benefits. 2. The establishment of the Department of Data Management. 3. Realinement of staff office functions. 4. Realinement of activities in compensation and pension and office services.

Mr. OSTERTAG. The fact remains you have instituted a system of automatic data processing which you claim has brought about efficiency, and I agree it has, but it is not reflected entirely in the overall cost of the operation of your insurance department.

Mr. DRIVER. Look at the top of page 8–59, Mr. Ostertag.

Mr. GLEASON. With a drop of 131 in personnel, what else can we do? We went from $10.4 million in personnel compensation in 1963 to $7.7 million for fiscal year 1965. That is almost $3 million.

Mr. OSTERTAG. In your budget for 1965 under this heading you are asking for $8,332,000, which is a reduction of $575,000.

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Which is not a substantial amount.

Mr. DRIVER. That includes the pay raise.

Mr. GLEASON. Gee, Mr. Ostertag, how much can we absorb? If you will look at the top of page 8–59 you will see that from 1963 we are down $3 million from just 2 years ago including the pay raise, and when you include the pay raise for 1,300 people, this is a tremendous amount that we have absorbed.

Mr. OSTERTAG. The consolidation was recently put into effect?

Mr. GLEASON. Yes, sir; this past year.

FUTURE REDUCTIONS DUE TO ADP

Mr. OSTERTAG. I opened the door for you to say that this is going to lend itself to further reductions.

Mr. GLEASON. I do not think you will get further reductions because we have already been automated now and any further reductions would be minimal.

Mr. OSTERTAG. I applaud what you are doing but I thought it would have a larger effect than what seems to be reflected here.

Mr. GLEASON. I would like to refer you back to the chart on page 2–4 just for insurance purposes. The Department of Insurance overall in 1953 had 11,000 personnel. For next year we are asking for 1,259 for the field operation. I think over this period of time this is a tremendous breakthrough. I do not know how much further you can ask us to go. We have gone from 11,000 to 1,259 in about 10 years. I think that is a tremendous amount.

Mr. DRIVER. In 1953 it was about 8,000 for the field operations.

Mr. THOMAS. That is remarkable.

Mr. DRIVER. I would think the saving in the future as a result of automatic data processing and so on will come in areas such as loan guarantees, supply management, and so on. The ones that have been fully automated such as insurance have already been reduced.

Mr. THOMAS. What about compensation and pension?

Mr. DRIVER. That has been completed. The table we will give you for the record will show these reductions.

Mr. OSTERTAG. I would like to have, if you are in a position to advance an estimate, what your projected savings will be in the subsequent years of 1966, 1967, and 1968 by virtue of the automatic data processing.

Mr. DRIVER. You mean new savings and not continuations?

Mr. OSTERTAG. I expect you to continue the savings, but will you have additional savings?

Mr. DRIVER. When you get down to the point we have got it and distribute it in about 75 locations, you have reached the point where it will be very difficult to make very large personnel savings. In the medical area there might be considerable savings but it will require a great deal of programing before we can make a firm estimate.

Mr. GLEASON. And it will take years.

Mr. OSTERTAG. Have you any projected estimates as to subsequent changes that will develop as a result of your program primarily due to the automatic data processing and your consolidations as well?

Mr. GLEASON. We have changes that we think we would like to follow but whether we will be able to accept them, I do not know. Mr. Budd will have to see if it is feasible. If so, only then can we try to go into it.

Mr. EVINS. Whereas you had six insurance offices you now have two and the personnel is considerably reduced. You say (reading):

The operations in connection with the maintenance of insurance records are now concentrated in two VA Centers located in Philadelphia, Pennsylvania and St. Paul, Minnesota. During fiscal year 1963, maintenance of these records included the processing of 22,554,000 remittances, 168,000 reinstatements, adjudication of 22,000 disability claims, granting of 112,000 loans and 75,000 refunds. Approximately 2,000,000 National Service Life Insurance records were converted to magnetic tape in our western offices. This brings the total number of converted records to 5.7 million since September 1959.

SAVINGS FROM AUTOMATIC DATA PROCESSING

Mr. GLEASON. Mr. Ostertag, we do have annual savings that have occurred through automatic data processing as of the end of fiscal 1964 from the conversion of compensation and pension accounts to ADP.

Mr. OSTERTAG. Could we put the paper you have just handed me in the record?

Mr. EVINS. Without objection, it will be placed in the record at this point.

(The paper referred to follows:)

Annual savings through automatic data processing as of end of fiscal year 1964

Conversion of compensation and pension accounts to ADP	$1,500,000
Processing of TWX hold checks, suspend-stop pay notices	12,000
Input and control revision (C. & P.)	32,000
Processing notices of death on the computers	43,000
Automatic reinstatement of policies	128,000
Insurance underwriting changes	30,000
Cash surrender of insurance and policies	34,000
Conversion of NSLI accounts	3,000,000
Computer sort and reconciliation of insurance collections	69,000

ADDITIONAL ESTIMATED SAVINGS 1965 OR AFTER

Conversion of USGLI accounts	137,000
Storage and retrieval of dividend information	55,000
Personnel and accounting integrated data pay system	1,770,000
Loan guarantee automation	1,294,000
Payment of insurance awards	110,000
Insurance actuarial operations	160,000
Preparation of premium, loan interest, and lien interest notices	55,000
Computer sort of miscellaneous insurance transactions	26,000

Automatic data processing—Accomplishments and plans

ACCOMPLISHMENTS

Description of project	Estimated annual savings to VA	Completion or target date
1. Conversion of compensation and pension accounts to automatic data processing. This project placed the maintenance of 4.5 million compensation and pension-benefit payment accounts on a centralized electronic data processing system. This system integrates the entire information-handling process from the rating decision at the VA regional office through the issuance of the benefit check by the Treasury Department. In addition to VA's savings, the Treasury and Post Office Departments save $500,000 a year.	$1,500,000	August 1962.
2. Processing of TWX hold checks, suspend-stop pay notices [1] This project provides a system of automatically processing hold-check requests and eliminates 3,500 teletype messages per month.	12,000	June 1963.
3. Automatic increase of compensation payments [1] Public Laws 88-21, 88-132, and 88-134 authorized increases of dependency and disability indemnity compensation payments to children, parents, and widows. Computer programs were developed to automatically increase these payments on the computer, providing 1-time savings of about $99,000 over the manual system. In addition, these programs are now available and need only to be modified to accomplish similar operations in the future.	[2]	October 1963.
4. Input and control revision (compensation and pensions) This modification of the compensation and pension ADP application provides for direct paper tape to magnetic tape conversion and improves our control procedures. It also eliminated the use of punched cards.	32,000	November 1963.
5. Processing notices of death on the computer An automatic procedure which calculates the amount of insurance payable, generates the account status for adjudication of the claim, and removes the record from the active file.	43,000	April 1962.
6. Automatic reinstatement of policy A program which automatically reinstates lapsed insurance policies when all conditions are met by the policyholder.	128,000	June 1962.
7. Insurance underwriting changes A program which automatically processes changes affecting underwriting aspects of the insurance contract.	30,000	June 1962.
8. Cash surrender of insurance policies An automatic process to accomplish an insurance policyholder's request to surrender his policy for cash.	34,000	November 1962.
9. Conversion of national service life insurance accounts [1] The conversion of nearly 2,000,000 of these accounts which were maintained at the St. Paul and Denver VA center was completed. (The Denver office was consolidated with St. Paul on June 2, 1963.) This converted all national service life insurance accounts, totaling about 5,700,000, to a data processing system of maintenance. In addition to savings in cost, we have gained greater accuracy, better accountability, and faster processing.	3,000,000	April 1963.
10. Computer sort and reconciliation of insurance collections [1] Completion of this project provides a system of placing payments of insurance premiums and loans almost directly on tape. This eliminated 10 electric accounting machine operations and records payments 1 day earlier.	69,000	April 1963.
11. Automatic deduction of insurance premiums from benefit payments.[1] Completion of this project provides a tape-to-tape operation between Chicago and Philadelphia for automatically processing insurance premium payments being made through deductions from benefit payments. This new system eliminated the use of punched cards and provides greater accuracy.	[2]	July 1963.
12. Conversion of U.S. Government life insurance accounts [1] The conversion of about 270,000 U.S. Government life insurance accounts was completed. In addition to savings in cost, this new system of maintenance provides faster and more accurate service to policyholders.	137,000	December 1963.
13. Storage and retrieval of dividend information [1] Completion of this project revised the insurance ADP system to provide for storing paid dividend information in the master record and retrieving this information when needed. This system also eliminated a supplemental punched card file.	35,000	Do.

See footnotes at end of table.

Automatic data processing—Accomplishments and plans—Continued

PROJECTS UNDER STUDY, DEVELOPMENT OR INSTALLATION

Description of project	Estimated annual savings to VA	Completion or target date
1. Personnel and accounting integrated data pay system. This project will provide a centralized, integrated ADP system for the pay and personnel administration operations of the Veterans' Administration including the associated fiscal system. Within the VA, this system provides for one-time capture of data for all purposes, the minimum of coding and punching at field stations, and keeping the complexities of the system within the computer, thus simplifying field stations tasks. It will also allow us to furnish tax information to the Internal Revenue Service, a record of personnel actions to the Civil Service Commission, and information to the Treasury Department RDO from which to prepare checks and bonds all on a magnetic tape to magnetic tape basis which eliminates paperwork in each agency.	[4] $1,770,000 [5] 542,000	June 1965.
2. VA total information processing system for 1975. This project is tied in with a study "Projection of the VA for 1975" being conducted by the Administrator's Advisory Council. It provides for developing the concepts and plan for a total information processing system to most effectively meet the conditions and needs anticipated for the VA in 1975.	[3]	May 1964. (Complete development of plans.)
3. VA automated management information system. This major study will determine how automatic data processing can be used to improve the VA management information system. This includes assisting planning and policy determinations by the use of the management sciences.	[3]	August 1968. (Complete research and analysis.)
4. Data processing branches. Through this study it is planned that criteria will be established for the assumption of management control and operation of data processing branches by the Department of Data Management and the proper organizational relationship of the branches will be explored. This study has potential for substantial savings through better utilization of EAM equipment and personnel.	[3]	February 1964. (Complete feasibility study.)
5. Procurement, storage and distribution of supplies. The VA spends about $225,000,000 annually to buy supplies and equipment. It owns $250,000,000 worth of equipment in use and another $35,000,000 in inventory. This program represents an area of potentially large savings through the use of automatic data processing. The current study will determine the feasibility of improving the management of the VA supply program through the application of advanced data processing techniques and developing a total integrated system which will meet both operation and management requirements. The design of an integrated system including supply functions of storage and distribution, inventory control, supply management, and purchase and contracting with the related fiscal and statistical activities will follow.	[3]	October 1964. (Complete feasibility study.)
6. Pension benefits projections (year 2000). This project provides for the development of a computer system to replace the present manual calculation of projections of the cost of veterans' benefits. This would allow the use of more sophisticated forecasting techniques and provide greater accuracy.	[3]	March 1964. (Complete development of an experimental computer program.)
7. Annual income questionnaire study [1]. This project will attempt to improve the process of preparing and evaluating over 2,000,000 annual income questionnaires by the use of ADP to reduce costs and improve service.	[3]	(Feasibility study in process.)
8. Automation of C. & P. accounting system [1]. This project provides for developing a completely computer-oriented accounting system which will produce final accounting reports and fiscal management information for the compensation and pension program as direct computer outputs. This system will eliminate a considerable amount of EAM processing and field station report preparation.	[3]	January 1965.
9. Forecasting by simulation. This project will attempt to expand the number of variables that will be taken into account in forecasting future costs and workloads in the veterans' benefits programs by the use of computer simulation techniques. It will allow us to forecast under several different contingencies with a minimum of additional cost and effort.	[3]	Open.

See footnotes at end of table.

Automatic data processing—Accomplishments and plans—Continued

PROJECTS UNDER STUDY, DEVELOPMENT OR INSTALLATION—Continued

Description of project	Estimated annual savings to VA	Completion or target date
10. Loan guarantee automation. It has been determined that the application of automatic data processing techniques to segments of the VA loan guarantee program is feasible and desirable at this time. Development of the ADP system for maintaining portfolio loans is underway and development of an ADP system for property management is currently planned.	[4] 1,294,000 [5] 450,000	September 1966.
11. Payment of insurance awards. This project will integrate the payment of about 527,500 insurance death awards a month into the insurance ADP system. It will eliminate the current manual-mechanical system and make the authorized payments automatically, providing the required reports as by products.	110,000	April 1964.
12. Insurance actuarial operations. The conversion of insurance actuarial operations from a punched card system to computer maintenance and integration with the insurance ADP system will be accomplished by this project. The national service life insurance portion has been completed. A total of about 12,000,000 punched cards used under the present actuarial system will be obviated as well as the EAM equipment needed to process them. Actuarial records will be generated by the computer system as a byproduct of normal processing.	160,000	June 1964.
13. Preparation of premium, loan interest, and lien interest notices [1]. This project will improve the efficiency of the insurance billing operation by further automation of the process.	55,500	Do.
14. Computer sort of miscellaneous insurance transactions. This project provides for developing a system for using the computer to sort miscellaneous insurance transactions to reduce costs and processing time. It will eliminate current EAM processing operations.	26,000	June 1965.
15. Placing insurance allotments on ADP [1]. If successful, this project will allow us to establish a system of computer tape-to-tape processing of insurance payments being made from the military service payrolls. The Coast Guard is cooperating in a test to develop the procedures for this application.	[3]	Open.
16. Architectural design criteria. This project will explore the feasibility of generating architectural design criteria for the construction of VA hospitals on the computer from existing medical requirements and data. It is anticipated that this project will reduce the time required from the time a new hospital is approved to the time it is given to the architectural engineer from the current 18 months to 7½ months.	[3]	During fiscal year 1965.
17. Estimation of construction costs. This project will develop computer procedures to provide rapid and detailed preproject estimates of hospital construction costs. It is anticipated that this project will provide further reductions in hospital construction leadtime and reduce costs.	[3]	March 1964. (Complete development on an experimental computer program.)
18. Automated hospital information system. This major study will determine the technical and economic feasibility of providing a minimal cost, real time automatic data processing system for VA hospitals. If feasible, this system will harbinger a new era of patient care in which the computer will become a primary tool of the doctor and hospital staff in providing better care to the hospital patient. Parts of this project are being conducted on a contract basis by the System Development Corporation.	[3]	June 1965. (Complete feasibility study.)
19. Analysis of nutritive content of menus by computers [1]. This system uses a nutritive value catalog of food items served in the VA hospitals to provide nutritional analysis of menus as a service to them. It will save station dietitians time and provide a more accurate analysis to assure proper patient nutrition.	[3]	February 1964.
20. Use of linear programing for food procurement. The objective of this project is the development of a system for utilizing linear programing, a mathematical optimizing technique, and the capacity of a large-scale computer in the selection of nutritionally adequate, patient acceptable and minimum cost diets for VA hospitals. The application of this procedure should produce the best combinations of types and quantities of food, the sources of supply, and a schedule for ordering and using food over a period of time.	[3]	July 1964. (Complete feasibility study.)

See footnotes at end of table.

Automatic data processing—Accomplishments and plans—Continued

PROJECTS UNDER STUDY, DEVELOPMENT OR INSTALLATION—Continued

Description of project	Estimated annual savings to VA	Completion or target date
21. Patient discharge statistical reports. This project under development will provide the Department of Medicine and Surgery with the statistical data they require for management from the master records of discharged patients, maintained on magnetic tape.	[3]	March 1964. (Complete developmental work.)
22. Use of ADP for the annual patient census [1] This project will provide for capturing and computer processing of data on all patients who are in VA hospitals on a specific date each year to provide statistical tables necessary for projecting patient loads and budget requirements.	[3]	April 1964. (Complete developmental work.)
23. Patient data system (EDP) [1] Completion of this project provides a centralized patient data system of processing a variety of Department of Medicine and Surgery and agencywide medical administrative operating requirements and relieves field stations of the day-to-day accumulation and tabulation of the data manually.	[3]	January 1964.

[1] Projects were started before the establishment of the Department of Data Management (Feb. 1, 1963) but have been continued or completed under DDM.
[2] See writeup.
[3] Projects are (1) at a stage of development such that it is not possible to estimate any potential savings or (2) it is not anticipated that they will generate any direct dollar savings.
[4] Net impact savings.
[5] Net whole-unit savings.

USE OF ADP IN COMPENSATION AND PENSIONS

Mr. THOMAS. How many employees did you have?

Mr. GLEASON. I do not have that.

Mr. THOMAS. Ten or twelve years ago we were constantly being asked to go in the field of automation. And you have only saved about $1 million?

Mr. GLEASON. That is 1 year.

Mr. THOMAS. If you have cut down your employment from 11,000 to 1,300 in insurance, that is about a 90-percent decrease. Compensation and pension is many times larger than insurance, so your field is fertile.

Mr. DRIVER. We have already converted the pension and compensation program.

Mr. THOMAS. You keep harping back to "We have done all we can do."

Mr. DRIVER. I do not mean to say that but in the claims program you were talking about something far different from the insurance program.

Mr. THOMAS. We understand it is far different. But if you cannot do it let us get someone who can. You have said a dozen times it cannot be done. We think it can.

Mr. DRIVER. What I was saying was we had already converted the compensation and pension program to the computer in the same sense we have converted the insurance to the computer.

Mr. THOMAS. Mr. Ford built the Model T Ford in 1905 and has been improving on it ever since and I think you can.

Mr. GLEASON. We can always try.

Mr. THOMAS. If you listen to Mr. Driver he has come up with a saving of $1 million and he says that is all he can do.

Mr. DRIVER. I am hesitant to say we can make further reductions in these areas that have already been converted.

Mr. EVINS. We appreciate all small favors and hope for more.

OFFICE SERVICES, FIELD

The next item is "Office services" in the field.

Place in the record pages 8–62 and 8–63.

(The pages follow:)

GENERAL OPERATING EXPENSES

OFFICE SERVICES, FIELD, $33,124,400

Mission

Office services provides the finance, administrative, and personnel services for the Department of Veterans Benefits, and at some stations for the Department of Medicine and Surgery on a reimbursable basis.

Highlights

At our larger offices, these services are provided by separate divisions with separate chiefs responsible directly to the Manager. At the smaller stations, the activities are combined into one division with a chief who is responsible to the Manager for all of the activities. During 1963 an "in put" section was established in finance in order to consolidate the functions applicable to data processing in one division. In addition to providing for more effective supervision, this change will make for more effective utilization of existing personnel. Personnel were transferred from compensation and pension, contact and administrative programs with no increase to total station employment.

The consolidation of the Department of Insurance with the Department of Veterans Benefits during 1963 combined those office services functions formerly performed independently in the separate departments. For purposes of comparison with the current and budget years, actuals for 1963 have been prorated to reflect the costs of this activity.

The following reflects estimated requirements for these functions and includes not only the personnel to provide above services, but the major portion of all other administrative costs of the regional offices plus employee travel for all transoceanic travel.

Summary of requirements

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate	Increase (+) or decrease (−), 1965 over 1964
Average employment	5,405	5,354	5,179	−175
Personnel compensation	$28,290,254	$29,069,000	$28,656,000	−$413,000
Personnel benefits	2,196,121	2,246,000	2,214,000	−32,000
Total personal services and benefits	30,486,375	31,315,000	30,870,000	−445,000
Travel and transportation of persons	601,929	610,000	623,000	+13,000
Transportation of things	231,055	163,000	178,000	+15,000
Rents, commissions, and utilities	1,920,751	1,955,000	2,134,000	+179,000
Printing and reproduction	745,532	630,000	610,000	−20,000
Other services	615,100	615,000	389,000	−26,000
Supplies and materials	1,629,812	1,640,000	1,002,400	−637,600
Equipment	757,348	1,324,400	546,000	−778,400
Total cost	36,987,902	38,252,400	36,552,400	−1,700,000
Common service adjustment	3,475,924	3,417,000	3,428,000	−11,000
Net cost	33,511,978	34,835,400	33,124,400	−1,711,000
Average employment:				
Office of Chief	112	108	105	−3
Finance	1,837	1,975	1,872	−103
Administrative	3,253	3,076	3,012	−64
Personnel	203	195	190	−5
Total	5,405	5,354	5,179	−175

The effects of several reorganizations, mergers, and consolidations are reflected in this section. Among other things, it includes the establishment of finance and data processing activities at regional offices and the merger of Department of Insurance with the Department of Veterans' Benefits. Improved procedures resulting from these changes, as well as increased productivity, account for the principal difference in personnel strength between fiscal year 1965 and fiscal year 1964.

Mr. EVINS (reading):

Office Services provides the finance, administrative, and personnel services for the Department of Veterans' Benefits, and at some stations for the Department of Medicine and Surgery on a reimbursable basis.

There is a decline here of 175 in average employment, 1965 over 1964, and there are other reductions.

"Travel and transporation of persons" is up $13,000. "Transportation of things" is up $15,000. "Rents, communications, and utilities" is up $179,000. What caused them to go up in some areas and decrease in others?

INCREASED COST FOR COMMUNICATIONS

Mr. GLEASON. The rents, communications and utilities—is that the one about GSA?

Mr. BRICKFIELD. Yes.

Mr. GLEASON. They have a new telecommunication system that has been put in and all the departments of Government originally were to go into this and then some have pulled out and our communications bill has gone up on a comparative basis. This is not because we are using the telecommunications more than previously but our share has proportionately increased because of others pulling out. We are giving consideration to pulling out ourselves if the charges continue to go up.

Mr. EVINS. Is it working out as planned?

Mr. BRICKFIELD. It is working well but it is costing a great deal more.

Mr. THOMAS. Why should it cost more? What is the increase over last year?

Mr. BRICKFIELD. You mean in telephone services?

Mr. THOMAS. Yes.

Mr. MONK. $179,000.

Mr. THOMAS. Why should that be? The total bill is around $1 million?

Mr. MONK. $1.3 million.

Mr. THOMAS. Why should it be up? You are not buying equipment, are you?

Mr. BRICKFIELD. No, sir. GSA (1) increased the rate, and (2) it was the initial cost of converting to this new system, the Centrex system, and they charged us for this cost of converting and we pay not only for the rates but for the cost of converting. This was an addition of $179,000.

Mr. THOMAS. What was the conversion fee?

Mr. BRICKFIELD. In the offices converted to date, the cost has ranged from $1,000 to over $10,000.

Mr. THOMAS. Per office?

Mr. BRICKFIELD. Yes, an estimated average of $5,000 per office.

Mr. THOMAS. You said the rates were up. How much did the rates go up?

Mr. BRICKFIELD. I will have to supply that.

Mr. EVINS. You say (reading:)

Effective July 1, 1964, rates for communication services received from GSA were increased to all agencies and our estimate reflects this increase.

We will have to talk to GSA about this. There must be more here than meets the eye. This committee supported them in this with the understanding it would provide better service at reduced costs.

Mr. BUDD. Some of this cost comes from a circular to absorb GSA overhead costs. Starting in fiscal year 1965 it is required that each agency takes a certain cost heretofore budgeted by GSA. Starting with 1965 each agency has to take its share of that cost and put it in its own budget.

Mr. THOMAS. That is not a recurring cost, is it?

Mr. BUDD. Yes, sir.

Mr. THOMAS. What will it be next year?

Mr. GLEASON. It will be up.

Mr. THOMAS (reading):

Centrex is a name given to a centralized telephone system in which a common switchboard and switching equipment serves one or more agencies. One of the main distinguishing features is direct in-dialing. In addition, effective July 1, 1964, rates for communication services received from GSA were increased to all agencies and our estimate reflects this increase.

How much were they increased?

Mr. GLEASON. We will supply that for the record.

Mr. THOMAS. Do you have a horseback opinion?

Mr. SHYTLE. I would say around 5 percent, sir.

Mr. THOMAS. What justification did they give you for that increase?

Mr. BUDD. Estimated costs. I think there is litigation pending. GSA went on a new system. The telephone company allowed them to buy their lines in bulk and lease to the agencies. I believe some of the competitors of the telephone company, A.T. & T., are contending that the cost is below their cost and they are doing it as a means of getting business and they are challenging the TELPAK system. They are saying A.T. & T. is charging less than it properly should. This is pending litigation at the present time.

Mr. THOMAS. What justification does GSA offer to the agencies for this increased cost?

Mr. BUDD. They had a directive to install a Government-wide system, and distribute costs.

Mr. THOMAS. We understand that. We helped them put it in effect. What does it add up to?

Mr. BUDD. They are installing new equipment. Centrex system is an automatic dialing system.

Mr. THOMAS. That is right. I asked if that would be a recurring cost.

Mr. BUDD. Yes, sir; it will because the equipment is rented and more expensive. The other factor you have is that some of the agencies, upon their failure to participate in this particular local operation, raised the unit cost of those who do participate. In the locations where we cooperate, in line with the administration program, we——

Mr. THOMAS. Is it mandatory that all agencies participate?

Mr. BUDD. The Bureau of the Budget directive implied mandatory cooperation. We have been cooperating. Unfortunately, some of the other agencies, did not cooperate and this had the effect of raising our cost. We have brought this to the attention of GSA and they are trying to rectify the situation.

Mr. THOMAS. I thought it covered everybody except the military and a movement was on foot to include the military in the continental United States. Is that correct?

Mr. OSTERTAG. I think that is correct.

Mr. BUDD. Out of our first 17 installations, 14 came up with increased cost compared to our prior cost.

Mr. EVINS. You were forced, in effect, to cooperate by a directive from the Budget Bureau?

Mr. BUDD. That is right.

Mr. MONK. This may be a cost distribution problem that affects us more than a total overall increase in Government cost.

Mr. THOMAS. Why should it cost you more than anybody else?

Mr. OSTERTAG. The chairman raised the question whether this was a recurring expense and you said yes, but the question comes to my mind, once you have completed this installation and whatever goes with it, why would it be a recurring expense?

Mr. BUDD. Because the rates go up for the users.

Mr. OSTERTAG. You mean from the standpoint of use?

Mr. BUDD. Just rental of a telephone with the new system requires modern equipment, therefore you are paying more per instrument than before, so each month your rental is higher. Then there are the other factors of cost redistribution. Maybe some of the other agencies are saving money. We are not.

Mr. MONK. Maybe GSA has been coming to you heretofore and maybe now it is going to the agencies.

Mr. OSTERTAG. This would only apply when you are doing business with other agencies, would it not?

Mr. MONK. In a pool.

Mr. BUDD. In many cities there are 40 to 50 different offices and GSA is trying to set up a central switchboard.

Mr. THOMAS. That is the purpose right there. You put your finger on it. Theoretically it ought to save money but on the surface it does not seem to.

Mr. SHYTLE. It has not to us.

Mr. OSTERTAG. Why are these other agencies resisting this program? Is it from the financial outlook, the original outlay in cost or is it because they want to remain sort of independent?

Mr. BUDD. I would not want to speak for the other agencies. If I may say informally my guess is the cost is the thing that probably makes them back off. Our people who have attended local area meetings, meetings called by GSA, I am merely basing my comments on the feedback from our people and the reported reaction of the other agencies, I would not want to say that is their reason.

Mr. SHYTLE. It is probably that one-time cost the chairman was talking about a while ago, too.

Mr. THOMAS. I do not think we have the right answer. We will take this up with GSA. Those people do not make that kind of mistake.

Mr. EVINS. Mr. Chairman, I have been impressed with the detail in these budgets; how much information they give us. They tell us how many people travel, home leave, rotation, et cetera. They come from Honolulu, Manila, San Juan. They have certainly done a good job in trying to give us all the information that the committee wants.

I do not have any further questions, unless we are going to turn to the next one.

BURIAL FLAGS

Mr. THOMAS. What about this $600,000 transfer item on page 8–68? This is for burial flags.

Mr. GLEASON. We covered this yesterday. This is transfer from "General operating expense."

Mr. THOMAS. Does it show a reduction in benefits?

Mr. MONK. It shows an increase in benefits.

Mr. THOMAS. I mean it shows an increase in benefits and reduction here.

As a matter of fact, your reduction is not $637,600. It is about $37,000.

Mr. MONK. That is right.

Mr. THOMAS. That is made up of miscellaneous, repair to furniture?

Mr. MONK. It is made up of supplies.

Mr. THOMAS. It is made up of operating and maintenance supplies and office supplies.

Mr. GLEASON. Yes, sir.

EMPLOYMENT IN CONTROLLER-TYPE FUNCTIONS

Mr. THOMAS. It is remarkable the amount of information that your controller digs up. How many people do you have working on the budget in all aspects of it.

Mr. SILBERMAN. I have 28 in Washington, D.C.

Mr. SHYTLE. The whole agency, Mr. Chairman? That is what you want?

Mr. THOMAS. Yes. Each department has its own budget staff.

Mr. SHYTLE. In controller-type functions throughout the entire agency and the field we have 3,883 and in budget functions we have 96. There are 27 of those in my office. There are 29 in DVB and 32 in the Department and Medicine and Surgery.

Mr. THOMAS. What is the total now?

Mr. SHYTLE. Total controller-type functions, I am throwing statistical, financial, and budget all together, there are 3,883.

Mr. THOMAS. You prepare your statistical information for your releases and the budget. What else do you do?

Mr. SHYTLE. We have our financial management operations. We have our fiscal audit work that is in this.

Mr. THOMAS. Can you bring it right down to the budget here? How many people do you have?

Mr. MONK. 74 for budget.

Mr. THOMAS. You have more than 74.

Mr. SHYTLE. 96 total.

Mr. MONK. If you counted everybody that was involved in the budget, you would have a considerable count.

Mr. THOMAS. Half of this budget goes back to his statistical staff.

Mr. SHYTLE. It is a continual flow of data.

We pull the cream out of it and try to put it in here. It is a standard reporting system that we try to adhere to.

As Mr. Monk points out, the cost of budget, it seems to me, is getting heavier all the time. It is in the Budget Bureau.

COMPENSATION AND PENSIONS

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Compensation:			
(a) Living veterans:			
Spanish-American War	363	293	254
World War I	184,263	173,572	163,680
World War II	1,180,216	1,177,019	1,167,845
Korean conflict	200,764	204,702	207,519
Peacetime service	100,292	109,490	118,844
Subtotal	1,665,898	1,665,076	1,658,142
(b) Deceased veterans:			
Spanish-American War	1,155	1,145	1,082
World War I	60,952	62,353	61,982
World War II	273,588	273,495	267,905
Korean conflict	50,971	53,248	54,533
Peacetime service	61,616	70,674	77,844
Subtotal	448,281	460,915	463,346
Total compensation	2,114,179	2,125,991	2,121,488
2. Pensions:			
(a) Living veterans:			
Prior to Spanish-American War	38	29	22
Spanish-American War	28,431	23,882	19,995
World War I	971,797	960,417	936,560
World War II	140,362	165,792	195,380
Korean conflict	10,465	11,962	13,777
Peacetime service	30	30	28
Subtotal	1,151,123	1,162,112	1,165,742
(b) Deceased veterans:			
Prior to Spanish-American War	2,394	2,068	1,871
Spanish-American War	54,528	53,212	52,033
World War I	298,088	307,139	318,845
World War II	176,853	199,673	217,989
Korean conflict	14,819	18,375	21,675
Peacetime service	8	6	5
Subtotal	546,690	580,473	612,418
Total pensions	1,697,812	1,742,585	1,778,160
3. Other:			
(a) Retired officers	2,758	2,718	2,600
(b) Subsistence allowance	5,905	8,220	9,590
(c) Burial allowance	48,074	49,956	50,236
(d) Special allowance, dependents	112	120	130
(e) Invalid lifts	20	20	25
(f) Burial flags			615
(g) Tort claim settlements			156
Total other	56,869	61,034	63,352
Total program costs, funded	3,868,860	3,929,610	3,963,000
Change in selected resources: [1]	−394		
Total obligations (object class 42)	3,868,466	3,929,610	3,963,000
Financing:			
Unobligated balance brought forward	−3,076	−8,610	
Unobligated balance carried forward	8,610		
New obligational authority (appropriation)	3,874,000	3,921,000	3,963,000

[1] Selected resources as of June 30 are as follows: Accounts receivable (benefit overpayments collectible from beneficiaries) 1962, $14,251,000 (1963 adjustments, −$5,000); 1963, $13,852,000; 1964, $13,852,000; 1965, $13,852,000.

Mr. THOMAS. "Compensation and pensions." Put pages 9–1 and 9–2 in the record.

(The justification pages follow:)

COMPENSATION AND PENSIONS APPROPRIATION, $3,963,000,000

The total requirements for the past, current, and budget years are summarized by major category as follows:

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Appropriation	$3,874,000,000	$3,921,000,000	$3,963,000,000
Unobligated balance brought forward	3,075,894	8,610,173	
Unobligated balance carried forward	−8,610,173		
Total obligations	3,868,465,721	3,929,610,173	3,963,000,000
Adjustment of obligation to cost (net)	[1] 394,273		
Total costs	3,868,859,994	3,929,610,173	3,963,000,000
Compensation	2,114,178,689	2,125,991,000	2,121,488,000
Pensions	1,697,812,484	1,742,585,000	1,778,160,000
Other	56,868,821	61,034,173	63,352,000

[1] Change in selected resources.

The funds requested under this title are to cover the payments of all compensation, pensions, and certain allowances authorized by the Congress, including emergency officers' retirement pay and annuities, as well as the payment for subsistence allowance to veterans receiving vocational rehabilitation under title 38, United States Code, chapter 31, initial burial allowances, payments due under World War I Adjusted Compensation Act in cases where benefits are not covered by the issuance of adjusted service certificates, special allowances (38 U.S.C. 412), burial flags and tort claim settlements (38 U.S.C. 901 and 351, respectively).

The caseloads and average payments used in preparation of these estimates are based on the experience obtained in fiscal year 1963, and prior years, with consideration given to various conditions which will affect the number of cases or amounts of payments to the separate classes of beneficiaries during 1964 and 1965.

The increased cost in the total appropriation is attributable primarily to the continuing accretions to the rolls in certain pension categories caused by the advancing age of veterans and the continuing effects of the equalization features of the Veterans' Pension Act of 1959, particularly in the case of beneficiaries of deceased veterans of World War II.

Consideration has been given to the cost effects of new legislation enacted in the 1st session of the 88th Congress, which has been estimated at a cost of approximately $18.7 million in 1964 and $22.9 million in 1965. Those with a major cost impact are explained in the following narrative.

The total appropriation requested amounts to $3,963 million which represents an increase of $33,389,827 over the estimated cost for the current fiscal year and an increase of $94,140,006 compared with the past fiscal year. Actual and estimated costs and average caseloads are summarized respectively for each major entitlement category in the following two tables:

Mr. THOMAS. The total requirement for the past, current, and budget years are summarized by major categories as follows: In 1963, you had $3,874 million. That runs into money, does it not? You had $3,921 million in 1964; in 1965 you want $3,963 million. Why the increase in 1964 over 1963 and 1965 over 1964? You show an unobligated balance of $8,610,000 carried forward into this year in compensations? Is this approximately correct?

Mr. MONK. That is right. Basically the increase is due to the pensions going up, more people coming on the rolls.

Compensation is down slightly.

Mr. GLEASON. It is down about 1 percent.

RECENT COMPENSATION LEGISLATION

Mr. THOMAS. Did you have any legislation last year that affected compensation and pensions?

Mr. GLEASON. Not pension; a rate increase in compensation in the death cases.

Mr. THOMAS. Was it in pensions or compensation?

Mr. GLEASON. Compensation.

Mr. THOMAS. You had a rate increase in compensation the year before last, did you not, a small one?

Mr. MONK. That is right.

Mr. BRICKFIELD. About $98 million.

Mr. THOMAS. At this point in the record give us a little information as to whether we have had rate increases in compensation or pensions in the last 5 years, and in the same table set out the amount of the increase itself.

Mr. GLEASON. All right.

(The information supplied follows:)

Legislation enacted affecting rates, fiscal years 1960–64 compensation and pensions

1960: No legislation enacted with significant cost effect.
1961:
Compensation: Public Law 86–663, effective September 1, 1960, $5 million (added House-bound rate).
Pension: Public Law 86–211, effective July 1, 1960, $82.5 million (new pension law).
1962: No legislation enacted with significant cost effect.
1963:
Compensation: Public Law 87–645, effective October 1, 1962, $98 million in fiscal year 1963 (increased most disability compensation rates).
Pension: None, with significant cost effect.
1964:
Compensation:
Public Law 88–21, effective July 1, 1963, $5 million (increased DIC parent and children rates).
Public Law 88–132 and Public Law 88–134, both effective October 1, 1963, $13 million in fiscal year 1964:
$4.2 million Public Law 88–132 (military pay bill effect on DIC widows).
$8.8 million Public Law 88–134 (increased DIC widows from $112 to $120 a month).
Pension: None, with significant cost effect.

ANALYSIS OF COSTS

Mr. THOMAS. The $3,963 million requested for 1965 is broken down between compensation and pensions. For 1965, pensions are $2,121,-

488,000 against $2,125,991,000 last year, and for pensions you have $1,778,160,000 for 1965 against $1,742,585,000 for fiscal year 1964. You have "Other" here. What is covered by "Other"? It shows an increase in excess of $2 million.

Mr. BRICKFIELD. On page 9–3, Mr. Thomas, the very last part of the page——

Mr. THOMAS. It includes retired officers?

Mr. BRICKFIELD. That is right.

Mr. THOMAS. Dependents pay, subsistence allowance, burial allowance—was there an increase in the burial allowance this year?

Mr. MONK. No, sir; more burials.

Mr. THOMAS. Special allowance for dependents, invalid lifts, burial flags——

Mr. GLEASON. That was transferred from general operating and the tort claim settlement, also.

Mr. THOMAS. This was added from "General administration"?

Mr. GLEASON. Transferred over.

Mr. THOMAS. It showed a decrease on the "Other" and "General administration for compensation."

Mr. GLEASON. Yes.

Mr. THOMAS. It is added here.

Mr. GLEASON. Yes, sir.

Mr. THOMAS. So this accounts for at least $600,000 of the increase, does it not?

Mr. MONK. Yes, sir.

APPROPRIATION STRUCTURE

Mr. THOMAS. Did it serve any useful purpose to commingle these two tremendous sums? Do you mean they were so large nobody could understand either one of them so we just lumped them both together? Did it serve any useful purpose?

Mr. MONK. Administratively it serves some purpose in that there is an interchangeability here of funds by legislative authority, 5 percent from the giving and 10 percent to the receiving. This used to be more important to us when the readjustment benefits was a larger item.

Mr. THOMAS (reading):

Funds requested under this title are to cover the payment of all compensation pension, and certain allowances allowed by the Congress.

Certain allowances authorized by the Congress are about eight and are included in the table as "Other."

Mr. BRICKFIELD. That is right, sir.

COMPENSATION AND PENSION REQUIREMENTS

Mr. THOMAS. Let's insert the table on page 9–3 at this point in the record. The bottom half covers other benefits other than compensation and pensions.

That runs up into the total of how much in dollars and cents?

Mr. GLEASON. $63,352,000.

(The page follows:)

The actual and estimated costs are listed below in detail by activities for each of the major categories:

	1963 actual	1964 estimate	1965 estimate
Total costs	$3,868,859,904	$3,929,610,173	$3,963,000,000
Compensation (total)	2,114,178,689	2,125,991,000	2,121,488,000
Living veterans (total)	1,665,897,548	1,665,076,000	1,658,142,000
Spanish-American War	362,886	293,000	254,000
World War I	184,263,075	173,572,000	163,680,000
World War II	1,180,216,063	1,177,019,000	1,167,845,000
Korean conflict	200,763,754	204,702,000	207,519,000
Peacetime service	100,291,770	109,490,000	118,844,000
Deceased veterans (total)	448,281,141	460,915,000	463,346,000
Spanish-American War	1,155,090	1,145,000	1,082,000
World War I	60,951,523	62,353,000	61,982,000
World War II	273,587,854	273,495,000	267,905,000
Korean conflict	50,970,562	53,248,000	54,533,000
Peacetime service	61,616,112	70,674,000	77,844,000
Pensions (total)	1,697,812,484	1,742,585,000	1,778,160,000
Living veterans (total)	1,151,122,816	1,162,112,000	1,165,742,000
Yellow fever experiments [1]	347		
Indian wars	37,751	29,000	22,000
Spanish-American War	28,430,685	23,882,000	19,995,000
World War I	971,796,930	960,417,000	936,560,000
World War II	140,361,665	165,792,000	195,360,000
Korean conflict	10,465,368	11,962,000	13,777,000
Peacetime service	30,070	30,000	28,000
Deceased veterans (total)	546,689,668	580,473,000	612,418,000
Mexican War	806		
Indian wars	351,790	315,000	271,000
Civil War	2,041,586	1,753,000	1,600,000
Spanish-American War	54,528,118	53,212,000	52,033,000
World War I	298,087,952	307,139,000	318,845,000
World War II	176,853,082	199,673,000	217,989,000
Korean conflict	14,818,558	18,375,000	21,675,000
Peacetime service	7,776	6,000	5,000
Other (total)	56,868,821	61,034,173	63,352,000
Retired officers	2,757,914	2,718,000	2,600,000
Adjusted service and dependents pay	2,041	2,000	1,000
Subsistence allowance	5,904,839	8,220,000	9,590,000
Burial allowance	48,072,011	49,954,173	50,235,000
Special allowance, dependents (38 U.S.C. 412)	112,269	120,000	130,000
Invalid lifts (38 U.S.C. 617)	19,747	20,000	25,000
Burial flags (38 U.S.C. 901)			[2] 615,000
Tort claim settlements (38 U.S.C. 351)			[2] 156,000

[1] Last participant died Aug. 22, 1962.
[2] Funding requirements transferred effective 1965.

Mr. THOMAS. Mr. Ostertag?
Mr. OSTERTAG. Off the record.
(Discussion off the record.)

BURIAL ALLOWANCE

Mr. THOMAS. The burial allowance is going up every year. It is $50,235,000 this year against $49,954,000. Why is this?
Mr. MONK. Number of deaths are increasing.
Mr. THOMAS. And the dollar amount per funeral is what?
Mr. GLEASON. $250.
Mr. THOMAS. Isn't there a little transportation?
Mr. BRICKFIELD. Yes. If a man dies in a VA hospital, there is entitlement for transportation to the cemetery.
Mr. THOMAS. The death must occur in the hospital?
Mr. BRICKFIELD. That is right.

Mr. THOMAS. Do you have any backfires of any kind under the funerals? I understand in most regional offices, particularly where you have a hospital, contracts will be let for burials.

Mr. GLEASON. We do not have any more contracts, Mr. Chairman.

Mr. THOMAS. When was that done away with?

Mr. GLEASON. Last July 1.

Mr. THOMAS. How is the matter handled now?

Mr. GLEASON. Now we have a list of morticians in the area that, after a complete inspection by our people, we believe them to be satisfactory and leave it up to the family to make the choice.

Mr. THOMAS. You said morticians.

Mr. GLEASON. Yes, sir; undertakers.

COMPENSATION AND PENSION CASELOAD

Mr. THOMAS. Let's look at the compensation table on page 9–4. It gives the living veterans, the total, and breaks them down between the Spanish-American War veterans, World Wars I and II, Korean conflict, and peacetime. Insert page 9–4 in the record.

(The page follows:)

The actual and estimated average caseloads are listed below in detail by activities for each of the major categories:

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Compensation (total)	$2,361,596	$2,361,250	$2,354,185
Living veterans (total)	1,986,837	1,991,410	1,987,795
Spanish-American War	134	110	95
World War I	141,804	132,700	124,000
World War II	1,503,156	1,501,300	1,491,500
Korean conflict	214,031	218,000	221,000
Peacetime service	127,712	139,300	151,200
Deceased veterans (total)	374,759	369,840	366,390
Spanish-American War	790	740	690
World War I	42,568	41,600	40,800
World War II	252,927	245,000	238,000
Korean conflict	39,309	40,000	40,700
Peacetime service	39,165	42,500	46,200
Pensions (total)	1,961,703	2,028,660	2,106,275
Living veterans (total)	1,181,960	1,199,995	1,223,575
Indian wars	27	20	15
Spanish-American War	22,356	18,600	15,500
World War I	1,016,003	1,013,000	1,010,000
World War II	133,650	157,000	185,000
Korean conflict	9,735	11,200	12,900
Peacetime service	189	175	160
Deceased veterans (total)	779,743	828,665	882,700
Mexican War	2		
Indian wars	486	430	370
Civil War	2,687	2,300	2,100
Spanish-American War	70,005	67,700	66,200
World War I	475,730	493,000	514,300
World War II	214,190	244,200	274,200
Korean conflict	16,601	21,000	25,500
Peacetime service	42	35	30
Other:			
Retired officers	1,173	1,100	1,040
Adjusted service and dependent pay	[1]	[1]	[1]
Subsistence allowance	4,290	6,000	7,000
Burial allowance [2]	190,762	198,600	210,300
Special allowance, dependents (38 U.S.C., 412)	192	220	265
Invalid lifts (38 U.S.C., 617)	120	120	150
Burial flags (38 U.S.C., 901) [2]			[3] 123,000
Tort claims settlements (38 U.S.C., 351)			[4]

[1] Less than $50.
[2] Figures shown represent estimated fiscal year totals, not averages.
[3] Less than $50. Funding requirements transferred effective 1965.

Mr. THOMAS. When was peace declared in the Spanish-American War?

Mr. BRICKFIELD. 1898. The Spanish-American War?

Mr. THOMAS. Yes.

Mr. GLEASON. That is when it was declared.

Mr. BRICKFIELD. Peace was declared, yes, sir, around 1902. War against Cuba was in 1898.

Mr. GLEASON. But then we had the troops in Cuba.

Mr. THOMAS. When were the troops there?

Mr. FABLE. The term "Spanish-American War" means the period beginning on April 21, 1898, and ending on July 4, 1902, includes the Philippines Insurrection and the Boxer Rebellion and in the case of a veteran who served with the U.S. Military Forces engaged in hostilities in the Moro Province means the period beginning on April 21, 1898, and ending on July 15, 1903.

Mr. THOMAS. How many troops did we have at the time?

Mr. HOOD. Total participants were 392,000.

Mr. THOMAS. And there are how many living now?

Mr. GLEASON. There are about 15,000 still alive.

Mr. THOMAS. There are how many living?

Mr. DRIVER. There are approximately 18,000 Spanish War veterans living today.

Mr. GLEASON. What page is that on?

Mr. DRIVER. It is in the other book, page 3.

Mr. THOMAS. How many widows?

Mr. DRIVER. The widows are under the deceased total.

Mr. THOMAS. Somebody said there were only 18,000.

Mr. GLEASON. That is the veterans that are receiving the pension.

Mr. DRIVER. 15,500 veterans receiving pension. There are 690 dependent cases receiving death compensation.

Mr. OSTERTAG. Mr. Chairman, according to this table there are 15,500 Spanish-American War veterans living.

Mr. DRIVER. Receiving pensions, sir. Then there are 95 receiving compensation up above.

Mr. GLEASON. Some may not be on the pension rolls at all.

Mr. OSTERTAG. That is what I am saying. Under the various tables you have, living veterans, total compensation——

Mr. GLEASON. That is living veterans total that are on the pension roll.

Mr. THOMAS. You have to combine the two figures now.

Mr. DRIVER. Yes, sir.

Mr. THOMAS. Here are 15,000 getting pensions and how many getting compensation?

Mr. DRIVER. Just 95.

Mr. GLEASON. Just 95 veterans of the Spanish-American War receive compensation?

Mr. THOMAS. And how many pensions?

Mr. GLEASON. 15,500.

Mr. OSTERTAG. Isn't there a special law on the Spanish-American War veterans, a special benefit?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Which is different than that of other veterans?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. 15,500 are getting pensions.

Mr. MONK. Practically every Spanish-American War veteran is on the rolls.

Mr. BRICKFIELD. It is called a service pension.

Mr. THOMAS. I knew a half dozen or a dozen in my town that were not getting any compensation or pension. They wouldn't take it. They had to apply for it and they wouldn't apply for it.

Mr. GLEASON. I did not think you had to apply.

Mr. MONK. You had to apply.

Mr. THOMAS. They said they didn't need it. If they ever needed it, they would. They just didn't apply.

Mr. MONK. But, at the end of June 1963, there were estimated to be 22,000 living Spanish-American War veterans.

Mr. THOMAS. All together?

Mr. MONK. All together.

Mr. THOMAS. And you have 15,500 of them drawing some type of compensation or pension.

Mr. MONK. During fiscal year 1963 we had 22,356 on the rolls.

Mr. DRIVER. We had 4,000 deaths during that year.

Mr. MONK. In large percentage they are on the rolls.

Mr. OSTERTAG. It is difficult to conceive there are that many living Spanish-American War veterans or even dependents because taking the average age, which let us assume it is 18 years at the time of the Spanish American War, here we are in the year of 1964 and they must be at least on an average of about 80 years of age.

Mr. DRIVER. That is right.

Mr. GLEASON. We still have "Civil War," if you will notice. Down below "Deceased veterans," these would be widows, or unmarried children, there are 66,200 that are on the pension rolls for Spanish-American War. We even have 2,100 Civil War dependent pensioners still on the rolls.

Mr. THOMAS. He is talking about the actual participants.

Mr. MONK. The average age of Spanish-American War veterans is 86.2 years.

WORLD WAR I VETERANS

Mr. THOMAS. Look at the "World War I" now for compensation. For this year you have got 124,000 and for pensions, World War I——

Mr. GLEASON. You have 1,010,000.

Mr. THOMAS. How many were involved, how many did service all together in World War I?

Mr. GLEASON. Do you have that?

Mr. HOOD. Total participants in World War I were 4,744,000.

Mr. THOMAS. And now 1,134,000 are receiving compensations and pensions and 90 percent of it is pensions; is it not?

Mr. OSTERTAG. Mr. Chairman, will you yield?

Mr. THOMAS. Surely.

Mr. OSTERTAG. I am trying to put the mathematics together as to how you arrive at your estimates for the number of World

War I veterans who will receive compensation during fiscal year 1965. You show 124,000 as against 132,700 in fiscal year 1964. That is a shrinkage of 8,700; is that correct?

Mr. GLEASON. Yes.

Mr. OSTERTAG. The difference between fiscal year 1963 and 1964 was 9,100. You estimate less going off the rolls or off the compensation benefits for this next year than you did the year previous. Yet they are older, time is going on; wouldn't the rate of World War I veterans receiving compensation pass on at a higher rate this next year than they did the year previous and previous years to that?

Mr. GLEASON. Not necessarily.

Mr. OSTERTAG. Not necessarily, but how do you arrive at a figure?

Mr. GLEASON. I am sure Mr. Stratton could tell you.

Mr. STRATTON. I think primarily, Mr. Ostertag, that is because the reduction in the rolls is not altogether due to the deaths of the World War I veterans. It is also due to the fact that some of them give back their compensation; in other words, they waive their compensation to receive pensions. We expect there are less in 1965 that would do this than we had in the prior years. It is not just deaths. If a veteran is receiving $20, he will waive it.

Mr. OSTERTAG. That is a point you would not ordinarily think of. I was trying to arrive at numbers here and how you arrived at the lesser shrinkage this next year than the year previous, but you account for that as I understand it, by virtue of the transfer or the election of benefits under pension rather than compensation.

Mr. GLEASON. That is right.

Mr. OSTERTAG. Which should, of course, increase the number on pensions, shouldn't it?

Mr. STRATTON. Yes, sir.

Mr. THOMAS. Another interesting sidelight to the picture is you have 1,134,000 receiving compensation and pension and it is the ratio of 10 to 1 that are receiving pensions.

In other words, it is actual injury received in service against the frailties that happen to all of us.

How many do you figure who performed service did not receive any compensation or any pension, who were not on the rolls for either compensation or pension?

Mr. DRIVER. 50 percent are on the rolls now.

Mr. THOMAS. No more than 50 percent?

Mr. DRIVER. There are about two and a quarter million living.

Mr. THOMAS. How do you account for that?

Mr. DRIVER. They cannot meet the pension criteria for some reason or other, income or lack of disability.

Mr. THOMAS. No, sir; anybody can reach the criteria for pension when you become 65.

Mr. OSTERTAG. Isn't age a criterion?

Mr. GLEASON. Not all can meet the income criteria.

Mr. THOMAS. I did not say anything about income. When he reaches the age of 65, if he wants to make a case, he can do it.

Mr. GLEASON. He can get 10 percent disability, sure, at least.

Mr. THOMAS. But to complete the picture, these 2 million who are eligible from the point of view of age have not attempted to bring themselves under the terms of the pension law.

Mr. DRIVER. One million, sir. There are 2 million living and 1 million is on the rolls.

Mr. THOMAS. 50 percent of the living have not attempted to bring themselves under the pension laws or compensation laws, either.

Mr. DRIVER. They have not succeeded if they have tried.

Mr. THOMAS. Have they tried?

Mr. DRIVER. Many of them have tried, sir; and many of them have been on the rolls in the past and gone off because their incomes have gone too high.

Mr. THOMAS. Do you have any information on the number of living World War I veterans who have never tried to secure compensation or pension?

Mr. DRIVER. I do not think so, sir.

PENSION REQUIREMENTS AND BENEFITS

Mr. FARMER. Of those we disallow, we know we disallow about 34 percent because of excess income.

Mr. THOMAS. You are talking about compensation or pension?

Mr. GLEASON. Pension only.

Mr. THOMAS. Thirty-four percent on account of excess income?

Mr. FARMER. That is right.

Mr. THOMAS. What is the income on the pension?

Mr. FARMER. It varies depending on whether he has a dependent or not.

Mr. THOMAS. A single veteran.

Mr. FARMER. A single veteran can have no more outside income than $1,800 per year. If he has greater than that, he is barred by reason of——

Mr. THOMAS. If he has an income of $1,800 a year, how much can he draw from the Veterans Administration if he is 65 years of age?

Mr. BRICKFIELD. $40 per month.

Mr. THOMAS. Does that depend upon any degree of disability?

Mr. GLEASON. Ten percent.

Mr. BRICKFIELD. He has to be unemployable because of his disability.

Mr. THOMAS. And that is 10 percent?

Mr. BRICKFIELD. Yes, sir.

Mr. THOMAS. It is $40 a month.

Mr. BRICKFIELD. That is right.

Mr. THOMAS. Suppose he is married and has a wife, who is a dependent. What can he draw then?

Mr. BRICKFIELD. He can have an income up to $3,000 and if it is less than $3,000 he can draw $45 per month.

Mr. THOMAS. What is the amount that he can receive now where he has a wife and—the maximum outside income is $3,000, isn't it?

Mr. BRICKFIELD. Yes.

Mr. THOMAS. What is the maximum he can draw in the VA pension program?

Mr. BRICKFIELD. If his income is under $1,000 it is $90 a month; if it is under $2,000 it is $75 a month and if it is under $3,000 it is $45 a month. That is a veteran with a wife, which is one dependent.

Mr. THOMAS. What degree of disability must he have?

Mr. BRICKFIELD. He, again, must be unemployable because of his disability, and 10 percent is sufficient for us to make a finding.

Mr. THOMAS. What does that 65 years count, 9 percent?

Mr. OSTERTAG. That is a good question, the question of the relationship of age to his capability or employability.

Mr. THOMAS. How do you arrive at that?

Mr. OSTERTAG. What is the relationship?

Mr. STRATTON. Mr. Ostertag, if he is 65 he only needs 10 percent disability for us to grant it at the local level, in the field station.

Mr. THOMAS. What is the 10 percent made up of? The question asked is 65 years, 9 percent of the 10 percent?

Mr. STRATTON. Sixty-five years is 10 percent because we are paying for the disability.

Mr. THOMAS. It is the mere fact he has reached 65 years of age.

Mr. GLEASON. Not quite. If he is 65 and is unemployable, he generally has at least 10 percent disability somehow, with arthritis or something wrong with him.

Mr. DRIVER. There have been many recommendations to eliminate the disability requirement at 65 to 70.

Mr. THOMAS. For all practical purposes he is eliminated now, is he not?

Mr. DRIVER. Yes, sir.

Mr. THOMAS. In a good many States the man is almost automatically taken off the company payroll at 65, is he not?

Mr. GLEASON. Yes.

Mr. OSTERTAG. Let me put the question another way, Mr. Chairman. Have you any figures or facts as to how many World War I veterans or veterans 65 years of age or over who have applied for pensions that have been denied such pensions by virtue of the fact that they have no disability?

Mr. STRATTON. Very few, Mr. Ostertag.

Mr. GLEASON. It is almost unheard of, Mr. Ostertag.

Mr. OSTERTAG. Then the chairman's point is well taken in that this 10 percent at 65 does not mean a great deal.

Mr. GLEASON. Well, except as Mr. Stratton said, 90 percent of this is the fact that you are 65 years of age. The other 10 percent is the fact that you are disabled.

WORLD WAR I CASELOAD

Mr. OSTERTAG (presiding). One more question on this World War I veteran picture: According to the tables on page 9–4 there will be approximately 1,134,000 World War I veterans either receiving pensions or compensation. What is the total World War I veteran population?

Mr. GLEASON. About 2.1 million.

Mr. OSTERTAG. So approximately one-half of the total of World War I veterans are now, or will be receiving during this next year benefits of one kind or another?

Mr. GLEASON. Either pension or compensation; yes, sir.

Mr. OSTERTAG. In that connection, on the dollar side of the picture, you are estimating compensation for World War I veterans at a figure of $163,680,000 for 1965, as against $173,572,000 for 1964. That is a

decrease of $10 million. That is, of course, compensation alone, and I think while we are on the subject, I might say that there is likewise a decrease from $960,417,000 for fiscal year 1964 for World War I under the pensions, as against $936,560,000 estimated for fiscal year 1965. That is a decrease of approximately $24 million. There is about $34 million decrease in the total requirements for World War I veterans during this next year.

Now, that is based on a decline in the World War I veteran population. Isn't that true?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. What do you estimate that to be?

Mr. STRATTON. On the rolls, Mr. Ostertag, there is a reduction on average payees in that area in pension of 3,000 in 1965 against 1964; that is shown on page 9–4. But that 3,000 does not account entirely for the loss or reduction of money because also in that reduction of money is a reduced average payment that is reflected generally on page 9–7, a drop from an average of 968 a year to 952 a year.

ESTIMATES FOR COMPENSATION AND PENSIONS

Mr. OSTERTAG. In this whole picture of compensation and benefits and pensions, how firm are your estimates?

Mr. MONK. Very good.

Mr. SHYTLE. It is amazing. It has been that way over the years. It has been very close.

Mr. OSTERTAG. Of course. You, by virtue of the nature of this program, must estimate what your requirements are going to be and I assume that your estimates are based on experience and lifespan and other factors that would tend to increase or decrease your obligations.

Mr. MONK. That is right.

Mr. OSTERTAG. How do you figure that there will be a decrease in the pension picture of World War I veterans? Isn't there apt to be an increase in demand, in view of the fact that while a large percentage of the World War I veterans are passing on, circumstances are going to bring more of them into the fold of pension requirements?

Mr. DRIVER. Mr. Ostertag, you will recall under the law prior to 1960, when a man came on the pension rolls at 65 or better, which is the World War I man's age now, he drew $78.75 as long as he met the income limits. Now when he comes on the rolls we look at this income and he falls into three categories. He may come on at $40, he may come on at $70, or he may come on at $85.

As Mr. Stratton indicated, the average cost per case per year has gone down.

More than as you indicate come on the rolls, but they come on at intermediate rate instead of the top rate.

Mr. MONK. Actually, the number of deaths will more than offset the number of those coming on the rolls, according to the figures.

JUSTIFICATION MATERIAL

Mr. OSTERTAG. I think we might include 9–5 through 9–10, because the tables and general information here tie together in one picture.

(The pages follow:)

Compensation and Pensions

COMPENSATION

Compensation is payable to a veteran because of a disability connected with military service, or to a widow, child, or parent of a veteran, because of the service-connected death of the veteran occurring before January 1, 1957. Dependency and indemnity compensation is payable to a widow, child, or parent (*a*) because of a service-connected death occurring after December 31, 1956, or (*b*) pursuant to the election of a widow, child, or parent, in the case of such a death occurring before January 1, 1957.

Living veterans.—The basic rates of disability compensation provided in wartime cases range from $20 for 10 percent disability to $250 per month for total disability. Certain cases are compensated for specific disabilities as prescribed by law, to a maximum of $725 a month per case. Veterans rated 50 percent or more disabled, with dependents, receive an additional allowance up to a maximum of $100 a month per case, plus $12 monthly for each child in excess of three. Generally, all rates of peacetime disability compensation are 80 percent of wartime rates.

Living veterans—Service connected

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Total costs	$1,665,897,548	$1,665,076,000	$1,658,142,000
Average payment per case per year	$838.47	$836.13	$834.16
AVERAGE NUMBER OF VETERANS			
Total	1,986,837	1,991,410	1,987,795
Wars:			
Spanish-American War	134	110	95
World War I	141,804	132,700	124,000
World War II	1,503,156	1,501,300	1,491,500
Korean conflict	214,031	218,000	221,000
Peacetime service	127,712	139,300	151,200

The moderate increase in average living veterans caseload in fiscal year 1964 reflects a lesser decrease in World War II during fiscal year 1963 and early fiscal year 1964 than had previously been experienced. This is expected to be a temporary trend and is so projected in fiscal year 1965.

The average payment in 1963 reflects the increased rates provided under Public Law 87–645, but a return to a normal decreasing trend is projected for 1964 and 1965.

Deceased veterans.—Death compensation or dependency and indemnity compensation, as previously stated, is paid to widows, children, and dependent parents of veterans who died in service or as a result of service-connected disease or injury.

Deceased veterans—Service-connected

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Total costs	$448,281,141	$460,915,000	$463,346,000
Average payment per case per year	$1,196.19	$1,246.26	$1,264.63
AVERAGE NUMBER OF CASES			
Total	374,759	369,840	366,390
Wars:			
Spanish-American War	790	740	690
World War I	42,568	41,600	40,800
World War II	252,927	245,000	238,000
Korean conflict	39,309	40,000	40,700
Peacetime service	39,165	42,500	46,200

The average caseload has decreased in 1963 and a similar decrease is projected through the budget year. The World War II caseload controls the overall decrease in this category. A steady increase in the peacetime roll continues but not in sufficient numbers to offset the losses in the World War I and World War II categories.

The increase in the average annual payment in 1964 and 1965 is attributable to the higher dependency and indemnity compensation rates provided for parents and children (Public Law 88–21, effective July 1, 1963) and to widows (Public Laws 88–132 and 88–134, both effective October 1, 1963.

PENSIONS

Pension is payable to a wartime veteran because of service, age, or non-service-connected disability and need, or to a widow or child of a wartime veteran because of non-service-connected death of the veteran.

Living veterans.—The rates and conditions of entitlement of World War I and subsequent periods of service are payable to wartime veterans who are unable to secure substantially gainful employment as a result of permanent and totally disabling non-service-connected disability. Effective July 1, 1960, a sliding scale of pensions was placed in effect, based on income limitation and family status, payable in amounts ranging from a minimum of $40 monthly to a single veteran with $1,200–$1,800 annual income, to a maximum of $100 monthly to a veteran with three or more dependents whose income is $1,000 or less annually. These, and intermediate rates, are increased by $70 monthly when the veteran needs regular aid and attendance. Rates and conditions of entitlement applicable to prior periods vary somewhat and are on a more liberal basis.

Living veterans—Nonservice connected

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Total costs	$1,151,122,816	$1,162,112,000	$1,165,742,000
Average payment per case per year	$973.91	$968.43	$952.73
AVERAGE NUMBER OF VETERANS			
Total	1,181,960	1,199,995	1,223,575
Wars:			
Indian wars	27	20	15
Spanish-American War	22,356	18,600	15,500
World War I	1,016,003	1,013,000	1,010,000
World War II	133,650	157,000	185,000
Korean conflict	9,735	11,200	12,900
Peacetime service	189	175	160

The caseload continues to increase steadily with the major gain projected in the World War II category through 1965. The World War I caseload appears to have reached a peak and is projected accordingly. Average payments in this category have steadily decreased. Much of this is attributable to lesser retroactive payments. Similar experience is expected to continue and average payments are projected to decline accordingly in 1964 and 1965.

Deceased veterans.—Pensions are now payable to widows and children of World War II and Korean conflict veterans on the same basis as applicable to widows and children of World War I veterans. A sliding scale of pensions based on income limitation and family status is payable in amounts ranging from $25 monthly to a widow alone with $1,200–$1,800 annual income to maximum of $105 to a widow with three children (plus $15 for each additional child) whose income is $1,000 or less.

Deceased veterans—Nonservice connected

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Total costs	$546,689,668	$580,473,000	$612,418,000
Average payment per case per year	$701.12	$700.49	$693.80
AVERAGE NUMBER OF CASES			
Total	779,743	828,665	882,700
Wars:			
Mexican War	[1] 2		
Indian wars	486	430	370
Civil War	2,687	2,300	2,100
Spanish-American War	70,005	67,700	66,200
World War I	475,730	493,000	514,300
World War II	214,190	244,200	274,200
Korean conflict	16,601	21,000	25,500
Peacetime service	42	35	30

[1] Last deceased veteran survivor on VA rolls died June 20, 1963.

The estimated caseload in 1964 reflects a normal increase in trend which is continued through 1965, as World War II and Korean conflict widows and children maintain their gains under the equalization features of the Veterans Pension Act of 1959.

The annual average payment decreased in 1963 and 1964. It is believed that a larger number of children will be discontinued from the World War II rolls in 1965, upon attaining age 18, resulting in a larger decrease in average payment.

OTHER

Average number of cases

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Total costs	$56,868,821	$61,034,173	$63,352,000
Retired officers	1,173	1,100	1,040
Adjusted service and dependents pay	[1]	[1]	[1]
Subsistence allowance	4,290	6,000	7,000
Burial allowance [2]	190,762	198,600	211,100
Special allowance, dependents (38 U.S.C., 412)	192	220	265
Invalid lifts (38 U.S.C., 617) [2]	120	120	150
Burial flags (38 U.S.C., 901) [2]			[3] 123,000
Tort claim settlements (38 U.S.C., 351) [2]			[3]

[1] Less than 50.
[2] Figures shown represent estimated fiscal year totals and not averages.
[3] Less than 50. Funding requirements transferred effective 1965.

Retired officers.—Emergency officers (World War I) and certain officers (Regular Establishment) retired for service-connected disability are entitled to special retirement benefits at rates substantially higher than the normal compensation payments.

Adjusted service and dependents pay.—Adjusted service credits earned by veterans of World War I are payable from this appropriation. Veterans' claims of $50 or less and dependents' claims of less than $50 are paid in cash. Dependents' claims of $50 or more are paid in 10 equal quarterly instalments. A bonus payment of $60 is paid to the dependents of a World War I veteran who died while in service and before July 1, 1919, if an adjusted service credit is certified to the Administrator.

Subsistence allowance.—Subsistence allowance payments to disabled veterans enrolled in vocational rehabilitation and education programs are made from this appropriation. Increases in 1964 over 1963 are continued in fiscal year 1965, attributable to delayed initial effects of Public Law 87-815, approved October 15, 1962.

Burial allowance.—Under present statutes the Administrator is authorized to provide an allowance of $250 (plus transportation charges where death occurs

under VA care) for the funeral expenses of a deceased veteran. The estimated increases in obligations are directly related to the estimated increase in number of deaths of veterans in civil life.

Special allowance—Dependents.—Under certain conditions a special allowance is payable to certain dependents of a veteran who dies after December 31, 1956, but who was not a fully and currently insured individual under the Social Security Act. The award is based upon a certification to VA by the Social Security Administration.

Invalid lifts.—The Administrator may furnish an invalid lift, if medically indicated, to any veteran in receipt of pension under Chapter 15 of title 38, United States Code, based on the need of regular aid and attendance.

Burial flags.—Under section 901, title 38, United States Code, the Administrator is authorized to furnish a flag to drape the casket of each deceased veteran entitled thereunder.

Tort claim settlements.—To provide for payment of compromise settlements resulting from tort claims where the claim is eligible for payment under 38 United States Code, section 351. This type of compromise settlement is in most claims in excess of $2,500 and is pursuant to the provisions of the Federal Tort Claims Act.

RETIRED OFFICERS

Mr. OSTERTAG. Under "Other benefits, retired officers"; who constitutes a retired officer under the terms of your program here?

Mr. BRICKFIELD. On page 9–9.

Mr. GLEASON. It says (reading):

Emergency officers, World War I, and certain officers of the regular establishment retired for service-connected disability are entitled to special retirement benefits at rates substantially higher than the normal compensation payments.

READJUSTMENT BENEFITS

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Education and training:			
(a) World War II education	42		
(b) Korean conflict veterans	62,418	29,567	8,630
(c) Orphans	25,704	25,420	24,500
Total, education and training	88,165	54,987	33,130
2. Special assistance to disabled veterans:			
(a) Vocational rehabilitation	3,338	4,997	5,880
(b) Housing grants	3,459	3,920	3,920
(c) Automobiles for other conveyances for disabled veterans	1,018	800	640
Total, special assistance to disabled veterans	7,815	9,717	10,440
Total program costs, funded	95,980	64,704	43,570
Change in selected resources [1]	−250		
Total obligations	95,730	64,704	43,570
Financing:			
Unobligated balance brought forward	−1,604	−1,674	−3,970
Unobligated balance carried forward	1,674	3,970	
New obligational authority (appropriation)	95,800	67,000	39,600

[1] Selected resources as of June 30 are as follows:

	1962 actual	1963 actual	1964 estimate	1965 estimate
Accounts receivable (benefit overpayments collectible from beneficiaries)	936	518	518	518
Unpaid authorizations (approved authorizations for paraplegic housing and automobiles or other conveyances)	399	566	566	566
Total selected resources	1,335	1,085	1,085	1,085

Mr. OSTERTAG. We will now turn to readjustment benefits. The total budget request is $39,600,000.

We shall insert justification sheet 10–1 in the record at this point.

(The page follows:)

READJUSTMENT BENEFITS, $39,600,000

The funds requested under this appropriation are to cover the cost of education and training, and special assistance benefits to disabled veterans, as authorized by chapters 21, 31, 33, 35, 37 and 39 of title 38, United States Code, as amended.

Summary of requirements

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate	Increase (+) or decrease (−), 1965 over 1964
Education and training	$88,164,763	$54,987,009	$33,130,000	−$21,857,009
Loan guarantee	360			
Special assistance to disabled veterans	7,814,952	9,717,000	10,440,000	+723,000
Total cost	95,980,075	64,704,009	43,570,000	−21,134,009
Costs financed from obligations of other years, net (−)	−249,760			
Total obligations	95,730,315	64,704,009	43,570,000	−21,134,009
Unobligated balance brought forward	−1,604,324	−1,674,009	−3,970,000	−2,295,991
Unobligated balance carried forward	1,674,009	3,970,000		−3,970,000
Appropriation	95,800,000	67,000,000	39,600,000	−27,400,000

Mr. OSTERTAG. The funds requested under this appropriation are to cover the cost of education and training and special assistance benefits to disabled veterans, as authorized by chapters 21, 31, 33, 35, 37, 39, of title 38, United States Code, as amended.

Under "Education and training, World War II, Korean conflict"——

Mr. GLEASON. This is the program that ends on January 31, 1965, Mr. Ostertag. That is why there is this decrease of almost $22 million for the next fiscal year.

Mr. OSTERTAG. Under "Education and training" you have a budget request of $33,130,000 as against $54,987,000 for fiscal year 1964, a decrease of $21 million.

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Likewise, under the "Special assistance to disabled veterans," there is an increase of $723,000. That is $10,440,000 as against $9,717,000 for fiscal year 1964.

I think we might insert in the record pages 10–2, 10–3, and 10–4.

(The pages follow:)

EDUCATION AND TRAINING

WORLD WAR II

Expenditures for subsistence allowance, tuition, supplies, equipment, settlement of old claims and miscellaneous adjustments amounted to $42,169 in fiscal year 1963. The average number of trainees was eight in fiscal year 1963. Activity in fiscal years 1964 and 1965 will be negligible.

KOREAN CONFLICT

The estimated requirements for Korean conflict trainees as authorized in title 38, United States Code, chapter 33 are based on the latest analyses and pro-

jections of the number of veterans who will be in training during fiscal years 1964 and 1965. Although the training program terminates January 31, 1965, the average number of trainees shown for 1965 represents trainee years. Funds required for education and training benefit payments and unit cost per trainee are shown below:

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate
Average number trainees:			
Higher learning	32,476	16,640	4,890
Below college	12,203	5,550	1,710
Correspondence	4,333	2,460	620
Institutional-on-farm	520	130	30
Job training	480	220	50
Total	50,012	25,000	7,300
Average cost per trainee	$1,248.07	$1,182.68	$1,182.19
Total cost (Korean conflict)	$62,418,384	$29,567,009	$8,630,000

ORPHANS

An educational assistance allowance is provided for orphans in title 38, United States Code, chapter 35, as amended (74 Stat. 1023). Estimated requirements for this allowance in fiscal years 1964 and 1965 follow:

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Average number of trainees	15,573	15,500	15,000
Average cost per trainee	$1,650.56	$1,640.00	$1,633.33
Total cost (orphans)	$25,704,210	$25,420,000	$24,500,000
Total education and training	$88,164,763	$54,987,009	$33,130,000

LOAN GUARANTEE

In fiscal year 1963, $360 was paid from this appropriation representing 4-percent interest gratuity payments.

SPECIAL ASSISTANCE TO DISABLED VETERANS

Vocational rehabilitation

The estimated requirements for tuition, books, supplies, and equipment for vocational rehabilitation training, title 38, United States Code, chaper 31, as amended (74 Stat. 820), are shown as follows:

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Average number trainees:			
Higher learning	1,070	1,870	2,260
Below college	2,466	3,560	4,100
Institutional on farm	188	160	190
Job training	566	410	450
Total	4,290	6,000	7,000
Tuition:			
Average number payments (excluding job training)	3,720	5,590	6,550
Average cost per trainee	$771.60	$773.70	$774.81
Total cost	$2,870,354	$4,325,000	$5,075,000
Supplies and equipment:			
Average number trainees	4,290	6,000	7,000
Average cost per trainee	$109.05	$112.00	$115.00
Total cost	$467,815	$672,000	$805,000
Total cost (vocational rehabilitation)	$3,338,169	$4,997,000	$5,880,000

Housing grants

Title 38, United States Code, chapter 21, authorizes the Administrator to approve grants up to $10,000 each, for specially adapted housing, to veterans having suffered the loss of, or loss of use of, both feet, and to paraplegic veterans. As disabled veterans grow older and their disability worsens, a new group become eligible each year. Estimates for fiscal years 1964 and 1965 follow:

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Number	354	400	400
Average cost	$9,771.07	$9,800.00	$9,800.00
Total cost	3,458,960.00	3,920,000.00	3,920,000.00

Automobiles or other conveyances for disabled veterans

Requirements for automobiles or other conveyances for disabled veterans as authorized in title 38, United States Code, chapter 39, are shown below:

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Number	637	500	400
Average cost	$1,597.84	$1,600.00	$1,600.00
Total cost	1,017,823	$800,000	$640,000
Total special assistance to disabled veterans	$7,814,952	$9,717,000	$10,440,000

AVERAGE NUMBER OF TRAINEES

Mr. OSTERTAG. Under this program of readjustment benefits you have certain items such as "Education and training," "Loan guarantee," and, of course, the question of "Trainees." I note that the average number of trainees is substantially reduced for this next year. The average cost remains the same, $1,182 per trainee. Does that mean that this is phasing out completely?

Mr. GLEASON. This is the one that ends next January, Mr. Ostertag, the Korean education training program.

Mr. OSTERTAG. There are 7,000 that you are programing for fiscal year 1965, 7,300.

Mr. GLEASON. That is an average.

Mr. BRICKFIELD. That takes us from July 1 through January 31.

Mr. OSTERTAG. So at the end of this calendar year——

Mr. GLEASON. Well, a year from now this will no longer be in effect because it goes through until January 31, 1965.

Mr. THOMAS. January 31, 1965?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. And orphans come under this program as well?

Mr. GLEASON. Yes, sir. That will continue, as you know.

Mr. OSTERTAG. Although there is a decrease in our total cost?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. How do you account for that? The average number of trainees remains—no, that is a reduction of 500.

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. And vocational rehabilitation, average number of trainees, tuition, housing grants appear on page 10–4. The total number of housing grants remains the same and your cost remains the same, at $3.920 million?

Mr. GLEASON. Yes, sir.

AUTOMOBILES FOR DISABLED VETERANS

Mr. OSTERTAG. Automobiles or other conveyances for disabled veterans comes under the title 38 of the United States Code, chapter 39. You have a reduction there, I note, of about 100 disabled veterans. Your average cost remains the same. The total cost has been reduced from $800,000 to $640,000?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. This is a special assistance program.

What does it cover, just the automobile or conveyance aspect?

Mr. BRICKFIELD. We contribute not to exceed $1,600 for an automobile.

Mr. OSTERTAG. That is what the law is?

Mr. BRICKFIELD. That is what the law provides. That is why you see that $1,600 figure there. It cannot go beyond that on average cost.

Mr. OSTERTAG. Was the law changed from 1963 to 1964? I note that the average cost was $1,597.

Mr. BRICKFIELD. No; 1963 is actual, and of course 1964 and 1965 are an estimate. There is less than a $3 difference.

Mr. OSTERTAG. How can it be when the law provides it must be $1,600——

Mr. BRICKFIELD. Not to exceed $1,600 per automobile.

Mr. OSTERTAG. I see. That is the limitation.

Mr. GLEASON. The maximum.

AVERAGE ANNUAL TRAINING AND ORPHAN PAYMENT

Mr. THOMAS. Mr. Ostertag, the thing that always baffled me here is that you give your Korean war veterans $1,100 or $1,200, certainly no more than $1,250 a year. Then the orphans get $1,650. Why is this?

Mr. MONK. The explanation of that is that in the Korean war there are some in on-job training, some in correspondence training, training that does not get full-time tuition. In the orphans program you only have full-time training so that you are applying here the full-time cost including tuition, books, supplies, and an educational allowance.

Mr. THOMAS. That is the maximum set by statute?

Mr. MONK. Yes, sir.

Mr. OSTERTAG. They are both training or education programs.

Mr. MONK. In rehabilitation training we pay the tuition that the school charges wherever the veteran goes to school so the tuition varies. There is no actual dollar maximum as to the per-trainee cost. There is a dollar maximum to the educational allowance that would be paid.

Mr. THOMAS. Still there is a spread of $450.

Mr. MONK. The difference in the war orphan cost is full-time versus part-time, to oversimplify it.

Mr. STRATTON. There is another thing there, Mr. Chairman. The war orphan generally goes to the institution and that is the thing that pays the highest rate, whereas the other group that you are comparing with it does not only include college, which is the higher rate, but also correspondence, institutional, on-the-job training.

Mr. THOMAS. That is the average?

Mr. STRATTON. The average per veteran trainee in 1963 was $1,248 and for orphans was $1,650.

Mr. OSTERTAG. The Korean veteran or trainee is involved either in higher learning or below college, correspondence, institutional, farm, or on-the-job training. What does the orphan's training or education entail?

Mr. GLEASON. Mostly college.

Mr. BRICKFIELD. 90 percent are in college, about 10 percent are in other schools.

Mr. OSTERTAG. And you say that that benefit goes direct to the institution rather than to the orphan?

Mr. GLEASON. No.

Mr. OSTERTAG. I misunderstood you then.

Mr. GLEASON. In the rehabilitation program we pay direct to the college institution for the tuition.

Mr. OSTERTAG. In other words, that is correct. Yes, you pay it to the institution for the tuition.

Mr. GLEASON. Yes, sir; for vocational rehabilitation: under the education and training program, tuition allowances are paid to the veteran or orphan.

Mr. OSTERTAG. But does it entail anything besides tuition?

Mr. MONK. Books and living allowance; total.

Mr. OSTERTAG. That is what I was getting at. What does the orphan's benefit entail?

Mr. BRICKFIELD. Usually it is tuition and supplies and a living allowance.

Mr. GLEASON. And a subsistence allowance.

Mr. OSTERTAG. That is part of the item, is it not?

Mr. THOMAS. Yes.

Mr. OSTERTAG. Are there any other questions on this?

VETERANS' INSURANCE AND INDEMNITIES

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs, funded:			
1. Military and naval insurance:			
(a) Payment to U.S. Government life insurance fund	−240	125	125
(b) Direct payments to policyholders and beneficiaries	2,667	2,570	2,460
Total, military and naval insurance	2,427	2,695	2,585
2. National service life insurance:			
(a) Payment to National service life insurance fund	5,993	6,953	5,713
(b) Direct payments to policyholders and beneficiaries	876	876	876
Total, antional service life insurance	6,869	7,829	6,589
3. Service-disabled veterans insurance: Payment to service-disabled veterans insurance fund	2,300	2,700	3,200
4. Servicemen's indemnities: Payments to beneficiaries	22,034	15,316	9,261
5. Other expense	7		
Total operating costs, funded	33,637	28,540	21,635
Capital outlay:			
Acquisition of loans and liens, net	15	60	65
Payments effected by income offset	−12		
Total capital outlay	3	60	65
Total program costs, funded—obligations	33,640	28,600	21,700
Financing:			
Unobligated balance brought forward	−6,102	−5,144	−7,544
Unobligated balance carried forward	5,144	7,544	344
New obligational authority	32,682	31,000	14,500
New obligational authority:			
Annual definite	32,000	30,200	13,700
Permanent indefinite	682	800	800
Appropriation	32,682	31,000	14,500

Mr. OSTERTAG. We will now turn to "Veterans insurance and indemnities," $13.7 million.

The "Veterans insurance and indemnity" appropriation provides funds for military and naval insurance, national service life insurance, Service Indemnity Act of 1951, and service disabled veterans insurance fund.

We shall put in pages 11–1, 11–2, and 11–3, comparison of the programs.

(The justification pages follow:)

VETERANS INSURANCE AND INDEMNITIES, $13,700,000

The "Veterans insurance and indemnities" appropriation provides funds for:

Military and naval insurance;

National service life insurance;

Servicemen's Indemnity Act of 1951; and

Service-disabled veterans insurance fund.

A comparison of actual and estimated requirements for each of the program activities for fiscal years 1963, 1964, and 1965 is shown in the following tabular statement:

Comparison of program costs

	1963 actual	1964 estimate	1965 estimate
1. Military and naval insurance:			
(a) Payment to USGLI fund	−$240,088	$125,000	$125,000
(b) Direct payments to policyholders and beneficiaries	2,667,303	2,570,000	2,460,000
2. National service life insurance:			
(a) Payments to NSLI fund	5,993,246	6,953,000	5,713,000
(b) Direct payments to insured and beneficiaries	875,523	876,000	876,000
3. Service-disabled veterans insurance: Payment to S-DVI fund	2,300,000	2,700,000	3,200,000
4. Servicemen's indemnities: Payments to beneficiaries	22,033,920	15,316,000	9,261,000
5. Other expense	7,159		
6. Acquisition of loans and liens, net	14,821	60,000	65,000
7. Less payments effected by income offset	−11,417		
Total program (obligations)	33,640,467	28,600,000	21,700,000
Unobligated balance brought forward	−6,102,034	−5,143,848	−7,543,848
Change in unappropriated receipts	−242		
Unobligated balance carried forward	5,143,848	7,543,848	343,848
Required new obligational authority	32,682,039	31,000,000	14,500,000
Appropriations:			
Annual definite: Veterans insurance and indemnities	32,000,000	30,200,000	13,700,000
Permanent indefinite: Veterans insurance and indemnities	682,039	800,000	800,000
Total appropriation	32,682,039	31,000,000	14,500,000

As the number of claimants under the military and naval insurance program continue to decline, expenditures are expected to decrease in excess of $100,000 from fiscal years 1964 to 1965.

Requirements for national service life insurance are expected to decrease by $1.2 million from fiscal years 1964 to 1965; $0.5 million is attributable to the decline in payments for gratuitous insurance to otherwise qualified illegitimate children. A reduced number of claims for extra hazard deaths and claims for death while under waiver of premiums account for the remaining $0.7 million decrease.

At present, the service-disabled veterans insurance program is the only insurance open to new applicants. This insurance is available to veterans separated from service after April 1951 who are suffering from a service-connected disability, but who are otherwise insurable. The number of claims will rise as the program increases in age and size. Since the insureds are medically substandard risks, death claims and refunds will exceed premium payments each year. The need will continue, therefore, for appropriated funds to supplement premium income. The estimate for this purpose in fiscal year 1965 is $3.2 million.

The servicemen's indemnities running award cases averaged 21,984 for fiscal 1963. The number of award cases are decreasing annually as installment payments are completed. The fiscal year 1964 expenditures are expected to be $15.3 million. The estimated requirements for fiscal year 1965 are $9.3.

MILITARY AND NAVAL INSURANCE

Mr. OSTERTAG. Under the military and naval insurance, your requirements remain the same as in fiscal year 1964. The direct payments to policyholders and beneficiaries is a slight decrease of $110,000.

What brings that about?

Mr. BRICKFIELD. This is the phasing out of this program. This fund goes back, Mr. Ostertag, to World War I war risk insurance at the very beginning of the program.

PAYMENTS TO SERVICE DISABLED FUND

Mr. OSTERTAG. And the national service life insurance has a decrease; service to disabled veterans insurance, payment to "SDV–1 Fund". What is that fund?

Mr. BRICKFIELD. It is the fourth item that you read at the beginning, service-disabled veterans insurance fund. These are veterans who are disabled, but who are otherwise insurable but for the disability. We charge a rate or a premium that is not sufficient to meet the obligations of the fund and so each year there is an appropriation from the Congress to supplement the fund to meet expenses. This is the appropriation of $3.2 million that we are asking for in 1965.

SERVICEMEN'S INDEMNITIES PROGRAM

Mr. OSTERTAG. Under the servicemen's indemnities, payments to beneficiaries, I notice you have a substantial decrease. How do you account for that?

Mr. BRICKFIELD. Yes, sir. When they closed off NSLI insurance in 1951, the Congress substituted the servicemen's indemnity payments. This was free insurance. It cost the serviceman nothing. Each year Congress appropriates the money. It is a 10-year program and will be completely terminated in 1966. We are getting toward the end of that program.

Mr. OSTERTAG. Are there any questions?

Mr. THOMAS. Thank you, I have no questions.

GRANTS TO THE REPUBLIC OF THE PHILIPPINES

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities: Medical care and treatment of veterans (costs—obligations) (object class 41)	307	310	310
Financing: Unobligated balance lapsing	43		
New obligational authority	350	310	310
New obligational authority:			
Appropriation	500	310	310
Transferred to "General operating expenses," Veterans' Administration (77 Stat. 39)	−150		
Appropriation (adjusted)	350	310	310

Mr. OSTERTAG. Grants to the Republic of the Philippines, $310,000. (Reading:)

Grants-in-aid are made to the Republic of the Philippines for the medical care and treatment of eligible Philippine Commonwealth Army Veterans.

The total budget request is $310,000. There seems to be no substantial change here.

Mr. GLEASON. No, sir. The third paragraph from the bottom, Mr. Ostertag, on page 12–1, gives the explicit reason in that it provides for reimbursement at agreed-upon patient per diem rates for veterans of the Philippine Scouts.

Mr. BRICKFIELD. Commonwealth army veterans; yes, sir.

Mr. OSTERTAG. We shall insert page 12–1.

(The page follows:)

GRANTS TO THE REPUBLIC OF THE PHILIPPINES, $310,000

Grants-in-aid are made to the Republic of the Philippines for the medical care and treatment of eligible Philippine Commonwealth Army veterans.

Summary of requirements

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate	Increase (+) or decrease (−), 1965 over 1964
Medical care and treatment of veterans:				
Average daily patient load	179	180	180	----------
Patient-days of care (cumulative)	65,437	65,880	65,700	−180
Cost per patient-day	$4.64	$4.65	$4.67	+$0.02
Summary by type cost:				
Hospital care	$303,704	$306,500	$306,500	----------
Authorized travel	3,650	3,500	3,500	----------
Total	307,354	310,000	310,000	----------
Unobligated balance lapsing	42,646	----------	----------	----------
Transferred to "General operating expenses"	150,000	----------	----------	----------
Appropriation	500,000	310,000	310,000	----------

Section 632 of title 38, United States Code, as amended by Public Law 88–40, approved June 13, 1963, provides for reimbursement at agreed upon patient per diem rates, up to a maximum annual cost of $500,000.

Funds provided this appropriation for fiscal year 1963 were based upon an estimated per diem cost of $7.30 per patient day. However, it was actually negotiated at $4.96 with resultant savings of more than $190,000 from originally estimated requirements. Legislation providing necessary addditional funds to cover the fiscal year 1963 cost of the recently enacted pay raise (Public Law 88–25, approved May 17, 1963) directed that $150,000 of the unused portion of this appropriation be transferred to the appropriation general operating expenses, VA, for this purpose.

Medical care and treatment is provided by the Philippine Veterans Memorial Hospital in Manila, which was constructed from U.S. grants-in-aid totaling approximately $9,400,000.

PATIENT LOAD AND UNIT COST

Mr. THOMAS. Look at that per diem cost at $7.30. How many beds are there in that hospital?

Mr. SHYTLE. 722.

Mr. THOMAS. You do not have a patient load of over 200; do you?

Mr. BRICKFIELD. 180.

Mr. SHYTLE. Commonwealth army veterans are 180 and in addition to that, we have over 200 contract beds for the Philippine Army.

Mr. WISE. 230, which we pay for under $24,000.

Mr. THOMAS. What do you mean, American citizens?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Are they living in the Philippines?
Mr. GLEASON. Or Filipinos who became American citizens.
Mr. THOMAS. And went back to the Philippines?
Mr. GLEASON. Yes, sir.
Mr. THOMAS. Do they have dual citizenship now?
Mr. GLEASON. No, sir.
Mr. THOMAS. Are they living in the Philippines?
Mr. GLEASON. Yes, sir.
Mr. THOMAS. Are they all Filipinos?
Mr. GLEASON. Not necessarily; no.
Mr. THOMAS. Off the record.
(Off the record.)

DIRECT LOANS TO VETERANS AND RESERVE REVOLVING FUND

Mr. THOMAS. We now turn to Direct Loans to Veterans and Reserve Revolving Fund. Put 13–1 and 2 in the record.
(The pages follow:)

DIRECT LOANS TO VETERANS AND RESERVES REVOLVING FUND

This fund permits the Veterans' Administration to make direct loans to eligible veterans in areas designated by VA where guaranteed loans are not generally available from private lending sources. Direct loans may be made to purchase, construct, or improve a home; to purchase a farm on which there is a farm residence to be occupied by the veteran as his home; or to construct, alter, repair, or improve a farm dwelling to be occupied by the veteran as his home.

The direct loan program was initiated under provisions of Public Law 475, 81st Congress, approved April 20, 1950, to run through June 30, 1951. Subsequent amending legislation has extended the program to July 25, 1967, for World War II veterans and to January 31, 1975, for Korean conflict veterans.

Funds available for making direct loans consist of periodic U.S. Treasury advances, the proceeds of principal repayments on loans made, and the proceeds from the sale of direct loans to private investors. From the beginning of the direct loan program in 1950 through June 30, 1963, a total of about $2.4 billion had become available for making direct loans from the following sources:

U.S. Treasury advances	$1,730,077,996
Principal repayments	441,313,904
Proceeds of sales to private investors	265,279,189
Total	2,436,671,089

Of the total availability as of June 30, 1963, almost $2 billion had been used to make direct loans; an additional $109.4 million was reserved for loans in process; an amount of $869,000 was outstanding in fund reservation commitments to builders or sponsors for direct loans on new houses they propose to construct for veteran purchasers; and funds amounting to $105.7 million had been transferred to the Loan Guaranty Revolving Fund. This left a balance of $230.8 million in unreserved funds available for processing loan applications from veterans.

Expenses involving loan closings are paid by the veteran; foreclosure expenses, property management and sales expenses, and interest on borrowings from the Treasury are met from interest income. Administrative expenses are borne by the appropriation for general operating expenses, Veterans' Administration.

Statements of program and financing

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Program by activities:			
Capital outlay:			
Direct loans to veterans	$196,061,181	$162,000,000	$110,000,000
Vendee loans made	7,929	10,000	10,000
Real property acquired	114,733	150,000	200,000
Total capital outlay	196,183,843	162,160,000	110,210,000
Change in selected resources	17,132,066	−722,158	−2,525,000
Total capital outlay (obligations)	213,315,909	161,437,842	107,685,000
Operating costs, funded:			
Interest on borrowings	49,141,794	50,500,000	50,000,000
Operating expenses, general	398,631	300,000	350,000
Property management and selling expenses	607,496	810,000	650,000
Total operating costs, funded	50,147,921	51,610,000	51,000,000
Total obligations	263,463,830	213,047,842	158,685,000
Financing:			
Authorization to expend from public debt receipts	200,000,000	150,000,000	
Revenue and other receipts:			
Repayment of loans to veterans	79,690,659	70,500,000	66,893,000
Repayment of vendee loans	610,836	500,000	650,000
Sale of loans:			
Existing legislation without recourse	181,202,382	150,000,000	150,000,000
proposed legislation without recourse			50,000,000
Sale of properties	594,906	700,000	750,000
Interest on loans	65,706,146	61,589,000	62,800,000
Rental and other revenue	894,930	1,000,000	1,200,000
Total revenue and other receipts	328,699,859	284,289,000	332,293,000
Unobligated balance brought forward:			
Cash	49,746,641	314,982,670	386,223,828
Authorization to expend from public debt receipts	300,000,000	280,512,080	249,371,615
Unobligated balance carried forward:			
Cash	−314,982,670	−386,223,828	−559,831,828
Authorization to expend from public debt receipts	−280,512,080	−249,371,615	−99,371,615
Unobligated balance lapsing	−19,487,920	−181,140,465	−150,000,000
Financing applied to program	263,463,830	213,047,842	158,685,000

APPROPRIATION LANGUAGE

Mr. THOMAS. Gentlemen, let's turn to page 454 of the committee print [reading]:

The amount authorized by section 23(a), title 3, United States Code, to be advanced after June 30, 1964, by the Secretary of the Treasury to the Administrator of the Veterans' Affairs for the purpose of direct loan revolving fund is hereby reduced by the amount of $150 million.

When we see that word "reduction" we do not usually look any further, do we?

This permits the Director of the VA to make direct loans to eligible veterans in areas designated by the VA where guaranteed loans are not generally available from private lending sources.

BORROWING AUTHORITY

What is the rate of interest? This is back door all the way. When was your last authority to go to the back door of the Treasury and how much were you to get?

Was it $2 billion?

We will read next to the last paragraph.

Mr. GLEASON. $1.2 billion, sir.

Mr. THOMAS. [Reading:]

Of total available as of June 30, 1963, almost $2 billion have been used to make direct loans.

Where is that paragraph showing how much the authorization was? Here it is. [Continuing reading:]

The direct loan program was initiated under the provisions of Public Law 475, 81st Congress, approved April 20, 1950, to run through June 30, 1951.

When was the last one? It reads:

From the beginning of the direct loan program in 1950 through June 30, 1963, a total of $2.4 billion became available for making direct loans * * *

Almost $2 billion has been used. When was the last authorization?

Mr. GLEASON. In the 87th Congress in July 1961, sir, when we were authorized $1.2 billion. That was to run to January 31, 1975, for Korean veterans and to July 25, 1967, for World War II veterans.

Mr. THOMAS. Foreclosure, sales expenses, and interest on borrowing from the Treasury are met from interest income. You really get into some complicated bookkeeping here.

Administrative expenses are borne by the appropriation for general operating expenses. You have to tie in general operating expense with this other revolving fund. You have three elements, expenses involving loan closings paid by the veterans themselves. How much is that?

Mr. DERVAN. Averages about $300 on a $15,000 direct loan.

MORTGAGE LOAN AMOUNTS

Mr. THOMAS. What is the greatest amount of the loan?

Mr. DERVAN. $15,000. Originally it was $10,000, and then $13,500 and now $15,000.

Mr. THOMAS. You get a good house for $15,000?

Mr. DERVAN. In the areas in which these loans are being made.

Mr. THOMAS. What is the ceiling on the insured loans rather than the direct loans?

Mr. DERVAN. There is no limit on the guaranteed or insured loans, sir. It may be for 100 percent of the purchase price provided the purchase price or the cost is not in excess of the appraised value as determined by the Administrator.

AMOUNT OF GUARANTEE

Mr. THOMAS. What is the limitation above which you do not go?

Mr. BRICKFIELD. If you are talking about guaranteed loans it is $7,500, but not to exceed 60 percent of the value of the property.

Mr. DERVAN. This is the amount of the guarantee, sir.
Mr. BRICKFIELD. Guarantee loan.
Mr. THOMAS. You usually do not go above $20,000.
Mr. DERVAN. It is very infrequent. The average property is considerably less than that.

REDUCTION OF BORROWING AUTHORITY

Mr. THOMAS. Why do you want to reduce it by $150 million?
Mr. GLEASON. We just do not think we will need it.
Mr. THOMAS. What was the schedule of contemplated withdrawals on that last $1.2 billion?
Mr. GLEASON. We had $150 million for this year and next, and $100 million in each of the remaining 2 years.
Mr. THOMAS. What year was that, 1961?
Mr. GLEASON. Fiscal year 1962.
Mr. BRICKFIELD. Borrowings to date, $200 million in 1962; $200 million in 1963.
Mr. THOMAS. Why this reduction? This does not apply to any particular year but it is the overall amount; is it not?
Mr. GLEASON. That is right.
Mr. THOMAS. Off the record.
(Discussion held off the record.)
Mr. THOMAS. Let us look at some of the figures involved here now. We shall insert pages 13–3 and 13–4 in the record.
(The pages follow:)

DIRECT LOANS TO VETERANS AND RESERVES REVOLVING FUND

DIRECT LOANS TO VETERANS

Under existing legislation, the Veterans' Administration may make or enter into a commitment to make loans through July 25, 1967, for World War II veterans and through January 31, 1975, for Korean conflict veterans. The amount of loans outstanding will be reduced to about $1 billion in 1965. A summary of loan activities follows:

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Number of loan commitments	20,101	14,933	9,770
Amount of loan commitments	$213,238,714	$161,278,000	$107,475,000
Number of loan disbursements and in process	18,488	15,000	10,000
Average cost per loan closed and in process	$10,605	$10,800	$11,000
Total disbursements on loans closed and in process	$196,061,181	$162,000,000	$110,000,000
Repayment of loans	$87,317,203	$77,560,000	$74,473,000
Sales of loans	$181,140,465	$150,000,000	$200,000,000
Losses on loans	$174,052	$165,000	$160,000
Net loan disbursements	−$72,570,539	−$65,725,000	−$164,633,000
Loans outstanding, end of year:			
Number	172,099	166,004	156,879
Amount	$1,261,014,255	$1,195,316,000	$1,030,683,000

VENDEE LOANS MADE

These loans are the result of resales of real property acquired through foreclosure or voluntary conveyances, and normally involve a cash down payment by the purchaser and the creation of a new mortgage loan to be held by the Veterans' Administration. The increase of vendee accounts indicated for both

fiscal years 1964 and 1965 are anticipated by reason of the increase in property sales.

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Amount of properties sold	$6,380,640	$7,405,000	$7,749,000
Amount of vendee loans acquired	5,658,909	6,675,000	6,849,000
Amount of vendee loans repaid	815,198	847,000	965,000

REAL PROPERTY ACQUIRED

Properties are acquired through foreclosures and voluntary conveyance in defaulted loans. The expected decreases in property acquisitions reflect fewer defaults occasioned by the decreasing portfolio of loans outstanding.

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Amount of properties acquired	$7,547,109	$7,062,000	$6,865,000

FINANCING

Prior to June 30, 1963, loans were made primarily with funds borrowed from the Treasury. Present plans are that the program will generate most of the funds needed for operations from loan repayments and the proceeds of loan sales, thereby reducing the dependence on Treasury borrowings. Borrowing authority in the amount of $2,033 million was authorized through June 30, 1963. New authorization of $150 million in 1965 is to be deferred as unnecessary to the program. These authorizations will be reduced by the proceeds of loan sales in the preceding fiscal year. Of the total funds to be made available from program operations, it is expected that $162 million will be disbursed in the current year and $110 million in 1965.

OPERATING RESULTS AND FINANCIAL CONDITION

To date, interest and other earnings from the direct loan program have been sufficient to pay all interest due the U.S. Treasury on advances, to cover all expenses which have been incurred, and to provide $101 million for transfer to the loan guarantee revolving fund. In addition, there will be a reserve of about $40 million, against future losses on the $1 billion in loans outstanding.

OPERATING EXPENSES—LOAN PROGRAMS

Mr. THOMAS. Re-insert the pages on administrative expenses at this point.

(The pages referred to follow:)

GENERAL OPERATING EXPENSES

LOAN GUARANTEE, FIELD, $21,946,000

Mission

Through the loan guarantee program, the Government guarantees or insures loans made by private lending institutions to veterans for homes, farms, and businesses; makes direct loans to veterans for homes in areas where private housing credit is short; and makes grants to paraplegic veterans for specially adapted housing. The program also services, liquidates, sells, and otherwise disposes of properties and loans owned as a consequence of underwriting and making loans.

Highlights

During fiscal year 1963, GI loan activity continued to trend upward. Nearly 206,000 home, farm, and business loans, amounting to $2.9 billion, were guaranteed or insured. Loan applications received during fiscal year 1963 increased about 10 percent over fiscal year 1962.

The VA, during fiscal year 1963, acquired 25,243 properties. This was an increase of 4,078 acquisitions over fiscal year 1962. However, sales of acquired properties increased during the year by 5,413, to 19,387, leaving 23,783 properties on hand at the end of the year.

During fiscal year 1963, 18,488 direct loans were made, bringing the cumulative total to 227,069. Loans as of June 30, 1963 amounted to nearly $2 billion.

During fiscal year 1963, $181.2 million in direct loans and $279.3 million in vendee accounts were sold to private investors.

Summary of requirements

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate	Increase (+) decrease (−), 1965 over 1964
Average employment	2,705	2,772	2,740	−32
Personnel compensation	$17,351,751	$18,928,000	$19,122,000	+$194,000
Personnel benefits	1,307,833	1,458,000	1,474,000	+16,000
Total personal services and benefits	18,659,584	20,386,000	20,596,000	+210,000
Travel and transportation of persons	499,939	500,000	500,000	
Other services	872,884	900,000	850,000	−50,000
Total cost	20,032,407	21,786,000	21,946,000	+160,000

Average employment

An increase of 67 man-years and 35 man-years is projected for fiscal years 1964 and 1965 respectively, over the employment level for fiscal year 1963. While a decline in several of the projected workloads is estimated for these years, there will be a corresponding increase in several key time consuming activities, such as loan servicing, and property management.

The Department has established goals which will enable it to curtail the number of properties to be acquired while at the same time dispose of a larger number of acquired properties than ever before. Involved in this accomplishment will be an increasing stress on servicing defaulted loans, coupled with an equally growing emphasis on the vendee sale program. Both of these will place a considerably increased burden on our field personnel.

Workloads supporting the above employment requirements are as follows:

Workloads

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Appraisal requests received (units)	350,639	344,600	329,500
GI loan applications	215,184	203,000	195,000
GI loans closed	203,065	190,000	175,000
Direct loan applications received	32,798	24,000	22,400
Direct loans closed and disbursed	18,488	15,000	10,000
Average number of loans owned	226,809	216,800	224,200
Paraplegic grants	350	400	400
Defaults reported	107,945	105,400	104,700
Claims processed	22,940	20,600	16,000
Property acquisitions	25,243	25,400	21,500

Distribution of employment by function

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Office of loan guarantee officer	214	214	214
Appraisal	581	565	530
Loan processing	557	545	470
Loan service and claims	856	883	936
Property management	497	565	590
Total	2,705	2,772	2,740

Construction and valuation

Overall workload will be enlarged in this activity during fiscal years 1964 and 1965, as a result of (a) implementing Executive Orders Nos. 11063 and 11114, which pertain to nondiscrimination in federally assisted housing and housing construction contracts, and (b) the adoption of a sale pricing technique through on site inspection of acquired properties. However, notwithstanding the enlarged workload in this area and the fact that backlogs developed in the appraisal activity during fiscal year 1963, workloads for fiscal years 1964 and 1965 will be processed at the same high level of productivity as performed during fiscal year 1963.

Loan processing

Because of the marked increase in claims under the guarantee and the frequency of marginal risks being submitted for VA approval, it has been necessary to extend underwriting techniques to encompass a sample review of loans made by private lenders under the automatic procedure. The purpose of this review is to evaluate the adequacy of credit reports submitted by credit reporting agencies and take corrective action as necessary. While this expanded activity increases the amount of work in loan processing, it does not reflect as an increase in reported direct labor workloads. Therefore, the inclusion of this additional work does not permit an increase in the overall productivity for loan processing in fiscal years 1964 and 1965. However, because of the importance of credit underwriting, particularly in respect to its effect on subsequent claims activity, the total workload will be accomplished with no lessening in productivity of the direct labor workloads.

Loan service and claims

The number of claims under the guarantee has continued to increase, contrary to improved economic conditions and a leveling-off trend of new defaults reported. In fiscal year 1962, claims were filed in 19 percent of defaults processed and, in fiscal year 1963, the ratio increased to 21 percent. The highest rates of claims and foreclosures processed occurred at those stations where supplemental servicing had to be curtailed. This attributed to the increased productivity in loan service and claims activity and occurred at the time when greater efforts were needed to forestall payment of claims and subsequent acquisition of properties.

The increased employment shown in fiscal years 1964 and 1965 should result in a reduction in the number of new claims and a commensurate reduction in the number of properties acquired. It is estimated that a saving of $11.5 million in capital outlay, and another $2.5 million in property and sales expenses, can reasonably be expected as a result of increased emphasis on supplemental servicing.

Property management

The volume of new property acquisitions in fiscal year 1962 and fiscal year 1963 raised workloads more rapidly than employment adjustments could be made to meet program needs.

In spite of a 39 percent increase in property sales in fiscal year 1963 over fiscal year 1962, efforts to reduce the inventory of acquired property fell far short of this objective. At the end of fiscal year 1963, there were 5,738 more properties in the inventory than at the end of fiscal year 1962. In fiscal year 1964, and fiscal year 1965, 25,000 property sales are planned for each year.

This is 5,613 more than were sold in fiscal year 1963. The additional volume of sales will require a greater effort per sale than was expended in fiscal year 1963. This is because the inventory contains both properties that are easy to sell and properties that are difficult to sell. As the volume of sales increases, a greater proportion of hard-to-sell properties must be disposed of. There were 11,231 properties owned more than 6 months in the inventory as of June 30, 1963, compared to 7,148 such properties in the inventory as of June 30, 1962.

Prudent management of the inventory requires that constant vigilance be exercised to assure that Veterans' Administration receives full value for services billed by management brokers, contractors, and others. Effective control requires that staff reviews be conducted to a greater extent than was possible with available manpower resources in fiscal year 1963. Therefore, to achieve this better control and a reduction in inventory, additional employment is required for fiscal years 1964 and 1965. The cost of the additional employment will be more than offset by the savings in property expenses which are estimated at $3 million per year.

Personal services and benefits

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate	Increase (+) decrease (−), 1965 over 1964
Personnel compensation	$17,351,751	$18,928,000	$19,122,000	+$194,000
Personnel benefits	1,307,833	1,458,000	1,474,000	+16,000
Total	18,659,584	20,386,000	20,596,000	+210,000

Fiscal year 1964 requirements are based on average salaries currently in effect, plus a nominal increase to cover periodic within-grade salary advances. Also included is $352,000 to cover the second phase of Public Law 87–793, and $143,000 for 2 additional paid workdays. Fiscal year 1965 requirements include a nominal increase to cover within-grade salary advances, $721,000 to cover a full year of Public Law 87–793, and $72,000 for 1 additional paid workday, which is offset by a decrease of 32 in average employment.

Travel and transportation of persons

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate	Increase (+) decrease (−), 1965 over 1964
Employee travel	$499,939	$500,000	$500,000	----------

It is expected that this administrative expense, resulting from the performance of travel necessary to meet program objectives with respect to the sale of acquired properties and the supplemental servicing of defaulted guaranteed or insured loans, will be no greater than the cost during fiscal year 1963.

Other services

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate	Increase (+) decrease (−), 1965 over 1964
Miscellaneous contractual services	$872,884	$900,000	$850,000	−$50,000

Fee appraisals, property inspections, special land planning, sanitation and drainage surveys, and credit reports, all of which are performed by non-VA personnel are necessary to fulfill the objectives of the GI loan program and the direct loan program. The level of these costs for fiscal year 1964 are estimated to be approximately $28,000 higher than fiscal year 1963. It is anticipated that the cost of credit reports will increase due to the rise in the number of prospec-

tive purchasers of VA acquired property and the necessity of adjusting the credit data reported by lending institutions. Fiscal year 1965 requirements are estimated to be $50,000 less than fiscal year 1964 due to diminishing workloads and greater utilization of salaried VA personnel.

LOAN COMMITMENTS

Mr. THOMAS. Under existing legislation, the Veterans' Administration may make or enter into a commitment to make loans through July 25, 1967 for World War II veterans and through January 31, 1975, for Korean conflict veterans.

It doesn't break it out in amounts?

Mr. GLEASON. No, sir.

Mr. THOMAS. The amount of loans outstanding will be reduced to about $1 billion in 1965.

The loan commitments in 1965 drop down, from $15,000 in 1964 and from $20,000 in 1963.

The amounts of commitments, $213 million in 1963, drop down to $107 million.

You are about caught up?

Mr. GLEASON. This is the way we view it as of now.

NUMBER OF REMAINING ELIGIBLE VETERANS

Mr. THOMAS. How many eligibles for home loans are there who have not used the entitlement?

Mr. GLEASON. About 6 million who have used it.

What were there in World War II?

Mr. BRICKFIELD. There are about 4 million who still have eligibility from the Korean war, and about 5 million from World War II.

Mr. THOMAS. Five million?

Mr. BRICKFIELD. That is right.

Mr. THOMAS. How many have used it since the Korean war?

Mr. DERVAN. About 20 percent of the Korean eligibles have used their entitlements, sir, and about 38 percent of the World War II veterans have used their entitlements.

Mr. THOMAS. You still have a lot of business ahead of you, then.

Mr. DERVAN. Considerable potential, but they are phasing out every day for World War II veterans.

Mr. THOMAS. Number of loan disbursements and in process goes down from 15,000 to 10,000.

Average cost per loan closed and in process has gone up very slightly.

Repayment of loans is $87.3 million in 1963; $77.5 million in 1964; and in 1965 it is $74,473,000. It seems the number should be going up.

SALES OF DIRECT LOANS

Mr. DERVAN. Sales of direct loans have been increasing, $181 million in sales last year, and we are predicting $150 million in sales this year and $200 million in sales next year depending upon the type of legislation enacted.

Mr. THOMAS. You mean payments are bound to be made or else there is a foreclosure.

Why are you selling the loans?

Mr. DERVAN. The governing law, sir, specifically prescribes that the Administrator shall offer for sale and shall sell loans to private investors presently at not less than par.

There is an amendment to the law which has been introduced which would authorize us to sell for reasonable prices as determined by the Administrator. This is presently before the——

Mr. THOMAS. You have seen the time when sales were few because there was no markets?

Mr. DERVAN. That is right.

Mr. THOMAS. Now the market is good and there is a lot of mortgage money.

Mr. BRICKFIELD. That is right, sir.

Mr. GLEASON. It is much better than it was.

Mr. THOMAS. We understand it is generally excellent, is it not? There is a lot of house money floating around?

Mr. GLEASON. Generally, yes.

SALES BELOW PAR

Mr. THOMAS. You cannot discount them. What is the statutory rate of interest?

Mr. DERVAN. Five and a quarter percent, sir.

Mr. THOMAS. And you cannot discount them?

Mr. GLEASON. No, sir. If we discounted them we would be able to sell——

Mr. THOMAS. This should be a good sale. What does VA draw now, five and a half?

Mr. GLEASON. This is an overall Government problem. With FNMA and ourselves it is a problem. If we break the rate it will break the rate for them.

Mr. THOMAS. You are not authorized to break the rate, though, are you?

Mr. GLEASON. That is right.

Mr. THOMAS. Even at that you are cheaper than the FHA, are you not?

Mr. GLEASON. FNMA and VA the same prices for the sale of loans. The interest rate now for FHA loans is also 5¼ percent, but FHA has a one-half-percent mortgage insurance premium.

Mr. OSTERTAG. That average cost per loan closed and in process, then, means what the average loan amounts to, $11,000?

Mr. DERVAN. That is right.

Mr. GLEASON. This is the direct loan program.

Mr. OSTERTAG. You say average cost. It is not actually a cost, is it?

Mr. DERVAN. It would be more descriptive to say "average loan amount," sir.

Mr. GLEASON. Exactly.

LOSSES ON DIRECT LOANS

Mr. THOMAS. You see this "Losses on loans, $174,000"? How many foreclosures does that represent?

Mr. DERVAN. Last year we had 941 foreclosures.

Mr. THOMAS. And you took a loss of $174,000 on it?
Mr. DERVAN. Yes, sir, the particular item is for losses on loans.
Mr. THOMAS. How much is that for each one?
Mr. GLEASON. Almost $160.
Mr. DERVAN. This item principally covers certain writeoffs, so it is not quite accurate——
Mr. THOMAS. What is this loss element made up of? That is what I am getting at. You have two revolving funds. You borrow from one and pay to the other. What element of loss is this made up of? It is about $175 a house, something less than 1,000 houses. You have $175,000 involved approximately, so it is around $175 a house.
What elements make up that loss?
Mr. DERVAN. I could not break it down as to the various elements at the moment, Mr. Chairman. I do know that this account includes writeoffs were, for example, a loan has been set up on the books at a certain amount and then it has been determined that there has been an error made in this respect and you have to write this down and it is written off on this basis, but I could not be precisely accurate——
Mr. THOMAS. Do you charge administrative expense in the loss in the direct revolving fund?
Mr. DERVAN. Administrative expenses are paid from appropriated funds.
Mr. THOMAS. I know where they are paid from. How do you figure out your loss now on your direct loans?
Mr. DERVAN. The loss is charged against the interest income together with all the other expenses such as foreclosure fees, appraisal costs, advertising costs in connection with foreclosures.
What we do is to take the interest income of loans, charge off against them the interest we have to pay to the Treasury, and then all the other operating expenses of the fund except salaries and administrative expenses.
Mr. THOMAS. On these loans it seems you pay less than a year's interest to the Treasury. What is the average amount of loan?
Mr. DERVAN. About 10.8, sir.
Mr. THOMAS. At 10 and a half percent, that is about what?
Mr. DERVAN. Five and a quarter.
Mr. THOMAS. $525.
Mr. DERVAN. The interest rate is 5¼ percent.

OTHER DIRECT LOAN COSTS

Mr. THOMAS. What are the other elements of cost?
Mr. DERVAN. The cost of the loan closer who closes the loan; the fee appraisal——
Mr. THOMAS. Is he a private individual?
Mr. DERVAN. Yes, sir.
Mr. THOMAS. What does that cost you?
Mr. DERVAN. This will vary, sir, approximately around $35 to $45 a loan for closing a loan.
Mr. THOMAS. Go ahead.
Mr. DERVAN. Credit report, anywhere from $3 to $5.

Mr. THOMAS. You have some court costs to pay in here, have you not?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. How much is that?

Mr. DERVAN. This will depend upon the jurisdiction. Where we have judicial foreclosure it can be quite expensive.

Mr. THOMAS. What do you mean by that?

Mr. DERVAN. In certain States throughout the country, sir, foreclosure is by judicial action rather than by foreclosing under a power of sale.

Mr. THOMAS. You have to go to the courthouse to get a court order directly from the sheriff to sell the property. Otherwise you sell it under trustee sale?

Mr. DERVAN. That is right.

Mr. THOMAS. What are the elements to make up that $175? You are already way past that figure.

Mr. DERVAN. Other costs which we bear out of interest income to the fund—cost of compliance inspector.

Mr. THOMAS. What does he make, $20 to $25?

Mr. DERVAN. About $5 per person.

Mr. THOMAS. How do you arrive at this figure of $174,052?

Mr. DERVAN. We, sir, also have one other factor. We appraise the property prior to the foreclosure. If there is any reduction in the reasonable value of the property since the loan was made, so that the loan balance is in excess of the current——

Mr. THOMAS. There must be a charge to the fund for the amount of delinquency. You don't let them go over 60 to 90 days before you foreclose, do you? What is the usual period before you foreclose?

Mr. DERVAN. Where we have a borrower who has tried to make his payments, and he appears to be in temporary difficulty, we will work with him just as long as possible rather than foreclose, and we would certainly work with a deserving borrower at least 6 months before we foreclose.

Mr. THOMAS. When he is delinquent 6 months?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. Then when you take over the property do you still charge interest or do you start taking it out of the fund, the revolving fund, do you waive the interest so far as bookkeeping is concerned?

Mr. DERVAN. First of all, we are still liable on the advance to the Treasury. We still owe the Treasury interest. We no longer have interest coming in from this individual.

Mr. THOMAS. So you pay it to the Treasury out of the revolving fund?

Mr. DERVAN. That is right, sir.

Mr. THOMAS. So your interest charge runs whether you have title or whether the veteran has title?

Mr. DERVAN. That is right.

Mr. THOMAS. This is not clear about the $175,000. You have accounted for about $600 per house.

Mr. DERVAN. The difference, Mr. Chairman, I think, is this: The property at the time of foreclosure is worth less, or has a reasonable value less, than the accumulated loan balance owing at the time of foreclosure, so we have taken a loss in acquiring that property to the

extent of the difference between the loan balance at that time and the reasonable value of the property when we take it in.

Mr. THOMAS. This item, then, does not cover your expenses in acquiring it. Whereabouts is that set up? In other words, you have that much depreciation in your original nest egg in your capital.

Mr. DERVAN. Yes, sir.

The other expenses which would be involved here would be foreclosure expenses and advertising.

Mr. THOMAS. Where are they set out?

Mr. DERVAN. On the prior page, 13–2. You will see real property acquired.

Mr. THOMAS. Under program by activities?

Mr. DERVAN. Yes.

Mr. THOMAS. The fourth line, yes.

Mr. DERVAN. This includes foreclosure costs, advertising, all the other incidental expenses incident to foreclosure and in advertising and acquiring that property.

Mr. THOMAS. $114,733.

Mr. DERVAN. This item is not limited solely to direct loans. It applies, also, to those mortgages which we acquired when we sold a direct loan property which had been foreclosed.

Mr. THOMAS. Judge, this makes the figure even further out of line. This is $114,000 and the other was $176,000. We had an excess of $500 on an annual basis for interest alone.

Mr. DERVAN. But this is limited to foreclosure costs, sir, and incidental advertising in connection with the foreclosure of the property.

Mr. THOMAS. Obviously one of the biggest items is the interest. You do not show any ad valorem taxes to be paid. Where is the item of interest charged?

Mr. DERVAN. With respect to real estate taxes, sir, with respect to those properties still under ownership of the veteran, the veteran pays the real estate taxes by paying us a monthly T and I account and we pay the taxes when due.

With respect to properties we acquire as a result of foreclosure, and while they are in the hands of the VA, we pay the taxes. That is shown under property management and selling expenses.

Mr. THOMAS. What are the operating expenses, General?

Mr. BRICKFIELD. Fee appraisers and other operating costs which we should properly absorb.

Mr. THOMAS. You have interest on borrowings, $49 million. You have operating expenses, general, $398,000. That does not come from the revolving fund; does it?

You have property management and selling expenses. This must be the overall figure for 1963.

FORECLOSURES AND PROPERTIES ON HAND

How many foreclosures did you have in 1963? How many properties did you have on hand for 1963, including the foreclosures?

Mr. DERVAN. First of all, foreclosures were 941, sir, during 1963.

Mr. THOMAS. All the foreclosures that year, 941?

Mr. DERVAN. Yes, sir; in the direct loans program.

Mr. THOMAS. How many properties did you have on hand?

Mr. DERVAN. We had roughly about 700 properties.

Mr. BRICKFIELD. 760.

Mr. THOMAS. I don't see how you got all these big figures, then, if the most you have is 1,700 to 1,800 houses in the revolving fund. I don't see how you get these big figures from that.

DIRECT LOAN FUND—FINANCIAL CONDITION

Let us look at the other funds. Maybe somebody will straighten it out tomorrow.

Insert the table on 13–5.

(The table follows:)

DIRECT LOANS TO VETERANS AND RESERVES REVOLVING FUND

Statement of financial condition

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Assets:			
Treasury balance	$408,181,477	$477,182,000	$648,182,000
Accounts receivable, net	3,854,272	4,097,000	3,730,000
Loans receivable, net:			
Direct loans to veterans	1,261,041,255	1,195,316,000	1,030,683,000
Vendee loans	14,374,688	20,198,000	26,075,000
Real property owned	4,794,919	4,648,000	5,059,000
Real property in process of acquiring title	1,083,388	1,600,000	1,900,000
Total assets	1,693,329,999	1,703,041,000	1,715,629,000
Liabilities:			
Current:			
Accrued interest payable:			
(a) Borrowings for direct loans	21,735,444	21,300,000	20,500,000
(b) Capital transfers to loan guarantee revolving fund	3,815,811	4,000,000	4,500,000
Other	26,974,666	25,950,000	25,800,000
Government equity: Interest-bearing capital:			
Start of year	1,424,359,974	1,624,359,974	1,624,359,974
Borrowing from Treasury during year, net	200,000,000		
End of year	1,624,359,974	1,624,359,974	1,624,359,974
Retained earnings end of year	16,444,104	27,431,026	40,469,026
Total Government equity	1,640,804,078	1,651,791,000	1,664,829,000

LOAN GUARANTEE REVOLVING FUND

Mr. THOMAS. Now we shall proceed to the loan guarantee revolving fund.

Insert page 14–1 in the record.

(The page follows:)

LOAN GUARANTEE REVOLVING FUND

The loan guarantee revolving fund was established at the beginning of fiscal year 1962 by Public Law 86–665, 74 Stat. 533. This law provides that the revenues obtained from principal payments and proceeds of sales of vendee accounts, principal payments on acquired loans, income from interest payments on such assets, and miscellaneous income, such as, from rental of properties, could be used to defray part of the expenses of paying claims, acquiring, managing, and selling properties.

Statement of program and financing

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Program by activities:			
Capital outlay:			
Real property acquired	$248,853,155	$225,500,000	$195,300,000
Claims paid	22,561,588	19,000,000	15,000,000
Loans acquired	1,242,426	1,000,000	1,000,000
Repurchase of loans sold	3,063,076	5,000,000	5,000,000
Capital improvements to acquired properties	4,169,802	4,500,000	4,700,000
Total capital outlay	279,890,047	255,000,000	221,000,000
Operating costs, funded:			
Property management expense	19,763,881	24,000,000	23,000,000
Sales expense	9,865,931	13,000,000	13,000,000
Total operating cost, funded	29,629,812	37,000,000	36,000,000
Total program (cost and obligations)	309,519,859	292,000,000	257,000,000
Financing:			
Revenue and other receipts:			
Loan and other repayments	13,755,883	15,000,000	18,000,000
Sale of loans with recourse	281,310,689	223,614,000	264,532,000
Sale of properties	9,535,668	12,000,000	12,000,000
Collection of claims receivable (veterans' indebtedness)	2,653,353	3,500,000	4,500,000
Interest, rental and other revenue	27,881,800	26,400,000	20,600,000
Total revenue and other receipts	335,137,393	280,514,000	319,632,000
Unobligated balance brought forward	55,333,167	80,950,701	69,464,701
Unobligated balance carried forward	−80,950,701	−69,464,701	−132,096,701
Financing applied to program	309,519,859	292,000,000	257,000,000

REAL PROPERTY ACQUIRED

Private lenders who have acquired properties through foreclosure proceedings on defaulted guaranteed or insured loans may, under terms specified by VA, elect to convey the properties to the Veterans' Administration. Fewer property acquisitions are in prospect for fiscal year 1964 and fiscal year 1965 because of the reduced number and further aging of outstanding loans.

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Properties acquired:			
Number of properties acquired	22,894	20,535	17,860
Average cost per acquisition	$11,052	$11,200	$11,200
Total cost	$253,022,957	$230,000,000	$200,000,000

CLAIMS PAID

When veteran borrowers or their transferees fail to meet their obligations under the terms of loans guaranteed or insured by the Veterans' Administration, the holders of such obligations submit claims pursuant to contracts of guaranty or insurance. Fewer claim payments are projected for fiscal years 1964 and 1965 consistent with the lesser acquisitions discussed above.

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Claims paid:			
Number of claims paid	23,375	19,000	15,000
Average cost per payment	$965	$1,000	$1,000
Total cost	22,561,588	19,000,000	15,000,000

Mr. THOMAS (reading):

The loan guarantee revolving fund was established at the beginning of fiscal year 1962 by Public Law 86-665, 74 Stat. 533. This law provides that the revenues obtained from principal payments and proceeds of sales of vendee accounts, principal payments on acquired loans, income from interest payments on such assets, and miscellaneous income, such as from rental of properties, could be used to defray part of the expenses for paying claims, acquiring, managing, and selling properties.

This is different from the direct loan. This is the big one, in other words.

PROPERTY ACQUISITIONS

Let's look at property acquisitions (reading):

Private lenders who have acquired properties through foreclosure proceedings on defaulted guaranteed or insured loans may, under terms specified by Veterans' Administration, elect to convey the properties to the Veterans' Administration. Fewer property acquisitions are in prospect for fiscal year 1964 and fiscal year 1965 because of the reduced number and further aging of outstanding loans.

This was printed last August. How true is that statement today?

Mr. DERVAN. Total number of loans is declining year by year, because payouts are exceeding new originations.

Mr. THOMAS. We are not talking about loans but fewer property acquisitions being in prospect.

Mr. DERVAN. As fewer loans develop, sir, there is less of an exposure to foreclosures, and, as a consequence——

Mr. THOMAS. The longer the loan goes the better it gets.

Mr. DERVAN. That is right.

Mr. THOMAS. Number of properties acquired in 1963 shows 22,894; in 1964, you had 20,535; for 1965, you have an estimate of 17,860. How true is your figure for 1964; 20,535?

Mr. DERVAN. Total altogether, sir, is about 13,500 this first half year, of which about 500 are direct-loan properties. I would say it is about 13,000.

PROPERTIES ON HAND

Mr. THOMAS. How many do you have on hand as of January 1, or some recent date?

Mr. DERVAN. 22,700, roughly, sir.

That is as of December 31. This includes direct-loan properties, also. Those were properties acquired as a consequence of direct-loan foreclosures.

Mr. GLEASON. And we are selling more than we are acquiring now, Mr. Chairman.

Mr. DERVAN. The distinction being we pay from the loan guarantee revolving fund——

Mr. THOMAS. The testimony of a while ago shows you had about 1700 direct-loan properties; so, 1,700 of these 22,700 are direct loans.

Mr. DERVAN. 760.

Mr. BRICKFIELD. We have 21,973 loan guarantee, 760 direct loans; a total of 22,733 total.

Mr. THOMAS. On hand as of——

Mr. BRICKFIELD. December 31, 1963.

Mr. THOMAS. The figure of 1,300 is the number acquired?

Mr. BRICKFIELD. I think it was 700, Mr. Chairman.

Mr. THOMAS. You had 700 on hand and acquired 942 during the year. That makes about 1,700.

Mr. DERVAN. That is right.

Mr. THOMAS. How many do you have now?

Mr. DERVAN. About 700, sir.

LOSS ON PROPERTIES

Mr. THOMAS. That is getting rid of them pretty well. What loss do you take on those?

Mr. DERVAN. On direct loans, sir, in fiscal 1963 it was $1,145 per property sold. Cumulatively, it is $931 since the beginning of the program in 1950.

Mr. THOMAS. You have had pay raises, increases in taxes, increase in everything. As of today, it is about $1,100 a house direct loans?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. I notice here you have a figure, for average cost of acquisition: $11,052, $11,200, $11,200. What do you mean by that "average cost per acquisition"?

Mr. DERVAN. The average amount we pay to the holder of a foreclosed loan when we accept the property from him, after he elects to convey it to us.

Mr. THOMAS. You have listed here as average cost per payment, under "Claim paid," $1,000. Is that the loss?

Mr. DERVAN. Yes, sir; that is the net amount we pay to the holder over and above the cost of acquisition, sir.

Mr. THOMAS. So your loss is less under your loan guaranty program than under the direct loans?

Mr. DERVAN. No, sir.

Mr. THOMAS. That is what you said.

Mr. DERVAN. Then I am sorry; I will straighten it out.

I understood you asked what our loss was on a direct loan. It is $1,145 per property sold in 1963.

Mr. THOMAS. That is what we understood you to say.

Mr. DERVAN. Guarantee loans, $1,326.

Mr. THOMAS. You have average cost per payment. I asked if that was the loss and you said yes, $1,000.

Where is the $1,300 figure? You have $1,000 shown here.

Mr. DERVAN. Average cost per payment is the net claim above the cost of acquisition.

Mr. THOMAS. So that figure of $1,000 should be $1,300; is that correct?

Mr. DERVAN. No, sir. When you asked the average loss, this is the loss we sustained after a property is acquired by the Veterans' Administration, repaired, placed in shape, and offered for sale and sold.

Mr. THOMAS. It is part of the loss, and the other part adds up to $300, making $1,300. Is that correct?

All right, Judge. I think it makes sense.

Turn to page 14–2 and we shall insert it in the record.

(The page follows:)

Loan Guarantee Revolving Fund

LOANS ACQUIRED

Guaranteed or insured loans in a default status may be purchased by the Administrator to avoid foreclosure when it is felt that temporary forebearance will allow the veteran borrower to cure the default.

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Loans acquired:			
Number of loans acquired	99	77	77
Average cost per acquisition	$12,545	$13,000	$13,000
Total cost	$1,242,426	$1,000,000	$1,000,000

REPURCHASE OF LOANS SOLD

Pursuant to VA Regulation 4600, dated March 22, 1962, the Administrator may sell mortgage loans, which have been created incident to the sale of VA acquired properties, with full recourse. Allowances are made for the possible repurchase of loans sold as indicated below:

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Repurchase of loans sold:			
Number of loans repurchased	303	495	495
Average cost per repurchase	$10,108	$10,100	$10,100
Total cost	$3,063,076	$5,000,000	$5,000,000

PROPERTY MANAGEMENT EXPENSE

The cost of ownership of the acquired properties is financed from this fund. These costs include local real estate taxes, services performed by management brokers, and the general maintenance required to keep the property in a salable condition.

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Property management expense:			
Average number of properties	20,364	22,900	21,900
Average cost per property	$971	$1,050	$1,050
Total cost	$19,763,881	$24,000,000	$23,000,000

SALES EXPENSE

This item consists principally of brokers' fees and advertising costs incident to the sale of acquired properties. A comparative statement of sales volume and related expenses follows:

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Sales expense:			
Number of sales	18,605	24,150	23,750
Average cost per sale	$530	$540	$550
Total cost	$9,865,931	$13,000,000	$13,000,000

FINANCING

Revenue and receipts consist principally of interest income and repayments on mortgage loans made incident to the sale of real property acquired as a result of foreclosure on guaranteed loans. It is also estimated that $222 million and $263 million in vendee loans will be sold to private investors during fiscal year 1964 and fiscal year 1965 respectively.

PROPERTY MANAGEMENT EXPENSE

Mr. THOMAS. Look in the middle of the page "Property management expense." (Reading:)

The cost of ownership of the acquired properties is financed from this fund. These costs include local real estate taxes, services performed by management brokers, and the general maintenance required to keep the property in a salable condition.

When you add these costs, plus that administrative cost back under general administrative expense, that is where you get the other $300, judge, and it all makes up the amount. Are you sure it is $1,300?

Mr. DERVAN. 1,326 actual in fiscal 1963, sir.

Mr. THOMAS. All right.

You have average number of properties here.

FINANCIAL CONDITION—LOAN GUARANTEE FUND

Now let us insert page 14–3 in the record.

(The page follows:)

Statement of financial condition

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Assets:			
Treasury balance	$86,271,243	$76,272,000	$139,272,000
Accounts receivable	3,270,646	2,000,000	2,300,000
Advances for bidding at public sales	40,566	42,000	45,000
Claims receivable, net (veterans' indebtedness)	25,703,662	43,947,000	45,829,000
Loans receivable	354,516,732	367,673,000	331,451,000
Real property owned	214,741,857	216,031,000	165,121,000
Real property in process of acquiring title	38,959,351		
Total assets	723,504,057	705,965,000	684,018,000
Liabilities: Current	8,591,188	8,087,000	9,475,000
Government equity:			
Start of year	728,205,710	728,206,000	728,206,000
End of year	728,205,710	728,206,000	728,206,000
Deficit (−), end of year	−13,292,841	−31,048,000	−53,663,000
Total, Government equity	714,912,869	697,158,000	674,543,000

Mr. THOMAS. Somebody explain this financial sheet, please.

Off the record.

(Discussion held off the record.)

APPROPRIATION LANGUAGE

Mr. THOMAS. Gentlemen, turn to page 460 of the committee print and follow this language.

(The language follows:)

LOAN GUARANTY REVOLVING FUND

[During the current fiscal year, the] *The* Loan guaranty revolving fund shall be available for *payment of expenses*[, but not to exceed $300,000,000,] for property acquisitions and other loan guaranty and insurance operations under Chapter 37, title 38, United States Code, except administrative expenses, as authorized by section 1824 of such title: *Provided*, That the retained earnings of the Direct loans to veterans and reserves revolving fund shall be available[, during the current fiscal year,] for transfer to said Loan guaranty revolving fund in such amounts as may be necessary to provide for the foregoing expenses.

REVISION IN LIMITATIONS

Mr. THOMAS. "During the current fiscal year the loan guarantee revolving fund shall be available for payment of expenses not to exceed $300 million." We had that in last year.

You delete the limitation for property acquisitions, and so forth—provided the retained earnings shall be available.

Why do you take out the limitation? You take out two limitations, the dollar amount and the current fiscal year.

Mr. GLEASON. We need it in the current year. Right now we are positive we will need it by the 1st of May.

Mr. THOMAS. How much will you need? What should that figure be?

Mr. GLEASON. Because of this limitation, Mr. Chairman, we probably will have to cut off payment of claims on the 1st of May and we will not be paying for 2 months.

LEVEL OF EXPENDITURES IN 1964

Mr. THOMAS. How much more do you need in addition to that $300 million?

Mr. GLEASON. About $60 million, sir.

Mr. THOMAS. What should the figure be, $360 million?

Mr. GLEASON. Yes, sir, $360 million would be fine.

Mr. OSTERTAG. The 1st of May of this year?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. This limitation applies——

Mr. GLEASON. That is why we are asking for it in the current year, also, the current year being 1964.

Mr. OSTERTAG. But this proposed change would be for the next year.

Mr. GLEASON. We would take the limitation out completely for next year.

Mr. OSTERTAG. That doesn't change the situation you are in in the current year.

Mr. GLEASON. If you pass this in time, by the 1st of May, the current year will give us——

Mr. OSTERTAG. Off the record.

(Discussion held off the record.)

VOCATIONAL REHABILITATION REVOLVING FUND

Mr. OSTERTAG. The Vocational Rehabilitaiton Revolving Fund follows, shown on page 15–1. This fund is used to make loans up to $100 to disabled veterans eligible for vocational rehabilitation who are without sufficient funds to meet their expenses. Repayments are used to make new loans.

The number of loans you anticipate will be somewhat less than last year. The average of the loan will be the same.

Number of loans outstanding remains the same, and this amounts to $210,000.

We shall insert pages 15–1 and 15–2 in the record.

(The pages follow:)

VOCATIONAL REHABILITATION REVOLVING FUND

This fund is used to make loans up to $100 to disabled veterans eligible for vocational rehabilitation who are without sufficient funds to meet their expenses (sec. 1507, title 38, United States Code). Repayments are used to make new loans.

Administrative expenses are borne by the appropriation "General operating expenses."

Workload—Amounts loaned and repaid

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Number of loans made	2,165	2,500	2,100
Average per loan	$100	$100	$100
Number of loans outstanding	1,343	1,343	1,343
Average amount per loan outstanding	$50	$50	$50
Total loans	$216,482	$250,000	$210,000
Repayment of loans	$221,143	$250,000	$210,000

Summary of sources and application of funds

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Obligations	$216,482	$250,000	$210,000
Increase (—) or decrease in accounts payable, net	−4,797	6,037	----------
Gross expenditures	211,685	256,037	210,000
Revenues and other receipts	221,143	250,000	210,000
Increase (—) or decrease in accounts receivable, net	−1,309	4,035	----------
Applicable receipts	219,834	254,035	210,000
Budget expenditures	−8,149	2,002	----------

Statement of financial condition

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Assets:			
Cash with Treasury	$324,335	$322,333	$322,333
Accounts receivable	4,035		
Loans receivable	67,132	67,132	67,132
Total assets	395,502	389,465	389,465
Liabilities: Accounts payable	6,037		
Government investment:			
Non-interest-bearing capital: Start of year (end of year)	400,000	400,000	400,000
Deficit (−)	−10,535	−10,535	−10,535
Total Government investment	389,465	389,465	389,465

Mr. MONK. This is a small revolving fund where they advance money to people in training, at no interest.

ADJUSTED SERVICE CERTIFICATE FUND

Mr. OSTERTAG. We now turn to page 16–1, the Adjusted Service Certificate Fund.

The World War Adjusted Compensation Act of 1924 created this fund to receive appropriations for ultimate payment of the face value of adjusted service certificates issued to qualified World War I veterans pursuant to this act.

Mr. GLEASON. That is the old World War I bonus.

Mr. OSTERTAG. That is right. Your estimated requirements are $60,000. This is on the decline. Is this because there are still certificates remaining unpaid?

Mr. BRICKFIELD. That is right, sir.

Mr. GLEASON. Some people just won't turn them in. As the chairman mentioned about the Spanish-American War veterans, some just won't apply for it. Some World War I people won't, either.

Mr. OSTERTAG. Under the financing, unobligated balance brought forward, cash, you show $2,734,000. Is that right?

Mr. GLEASON. Yes.

Mr. OSTERTAG. Is that the balance in the fund?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Then what do you need the $60,000 for?

Mr. MONK. We don't. This is an expenditure out of the fund to reduce the unobligated balance.

Mr. OSTERTAG. This is what you anticipate using in fiscal year 1965 from the fund?

Mr. GLEASON. That is right. We are not asking for any of this money.

Mr. OSTERTAG. Insert page 16–1.

(The page follows:)

ADJUSTED SERVICE CERTIFICATE FUND

The World War Adjusted Compensation Act of 1924 (43 Stat. 121, 128) created this trust fund to receive appropriations for ultimate payment of the face value of adjusted service certificates issued to qualified World War I veterans pursuant to this act. Only a small portion of the certificates issued remain unpaid. Administrative expenses are charged to the appropriation "General operating expenses, Veterans' Administration."

The principal of the fund, except for a small cash balance, was invested in U.S. securities, and interest income therefrom was also available to pay matured certificates. As of December 31, 1956, all U.S. securities held in the fund were paid off in full along with accrued interest. None of the fund will be reinvested and all payments will henceforth be made from the cash principal.

Payments of certificates amounted to $66,685 during fiscal year 1963. It is 1965. The expenditures and balances of the fund for the past, current, and budget years are reflected in the following schedule:

Program and financing

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Program by activities:			
Operating costs:			
Adjusted service payment program:			
Payment of World War I adjusted service certificates (total obligations)	$66,685	$65,000	$60,000
Financing:			
Unobligated balance brought forward:			
Cash	2,866,649	2,799,964	2,734,964
Unobligated balance carried forward:			
Cash	−2,799,964	−2,734,964	−2,674,964
Total financing	66,685	65,000	60,000

SERVICE-DISABLED VETERANS' INSURANCE FUND

Mr. OSTERTAG. Next is "Service-disabled veterans' insurance fund." This is another revolving fund established to record financial data pertaining to nonparticipating insurance issued under section 620 of the National Service Life Insurance Act of 1940, as amended.

You have a statement of the revenue, expense, and retained earnings. The revenue in 1965 is estimated at $6,818,000.

Expense is $9,301,000. The net loss is shown.

Mr. BRICKFIELD. This is disability insurance where we do not charge sufficient premiums so that the premiums can meet the obligations of the fund. It runs at a deficit each year as you can see from these figures, and we show the amounts we need.

Mr. GLEASON. This is the only insurance still open, too.

NEED FOR APPROPRIATED FUNDS

Mr. OSTERTAG. What do you have to offset the liabilities other than the assets?

Mr. BRICKFIELD. That is it.

Mr. GLEASON. That is where you come in.

Mr. BRICKFIELD. That is why we come to Congress.

Mr. OSTERTAG. What are you asking for here?

Mr. BRICKFIELD. We have this fund called V.I. & I. The amount we are asking for is part of this $13 million.

If you turn to page 11–1, sir, and if you turn to item No. 3, that is the same fund and that is the appropriation.

Mr. OSTERTAG. In other words, the appropriation is not associated with this fund at this point?

Mr. BRICKFIELD. That is right.

Mr. OSTERTAG. It is included under veterans' insurance and indemnity of the total appropriation of $13,700,000, of which $3,200,000 is part?

Mr. BRICKFIELD. That is right, and it is on page 17–1. Look at the next to the last line, $3,200,000. Do you see it, sir?

Mr. OSTERTAG. Yes.

We shall insert 17–1 and 17–2 in the record at this point.

(The pages follow:)

SERVICE-DISABLED VETERANS' INSURANCE FUND

This revolving fund was established to record financial data pertaining to nonparticipating insurance issued under section 620 of the National Service Life Insurance Act of 1940, as amended (38 U.S.C. 722). This insurance is available to veterans with a service-connected disability which makes them ineligible for commercial insurance. It is estimated that the number of policies in force will increase from 52,790 at June 30, 1963, to 58,600 at June 30, 1965.

Fund requirements are completely uncontrollable administratively due to the medically substandard lives insured. Fund payments have exceeded the income resulting in capital impairment. Restoration of capital is made by payments from "Veterans insurance and indemnities" appropriation.

Administrative expenses are paid from the "General operating expenses" appropriation.

Statements of income and expense and of financial condition for past, current, and budget year follow:

Revenue, expense, and retained earnings

	1963 actual	1964 estimate	1965 estimate
Insurance program:			
Revenue	$5,927,966	$6,408,000	$6,818,000
Expense	7,709,752	8,436,000	9,301,000
Net operating income or loss (−) for the year	−1,781,786	−2,028,000	−2,483,000
Net nonoperating income or loss (−)	−4,052,777	−3,549,882	−3,902,000
Net income or loss (−) for the year	−5,834,563	−5,777,882	−6,385,000
Analysis of deficit:			
Deficit (−), beginning of year	−24,200,555	−27,735,118	−30,613,000
Payment from veterans' insurance and indemnities	2,300,000	2,700,000	3,200,000
Deficit (−), end of year	−27,735,118	−30,613,000	−33,798,000

Statement of financial condition

	1963 actual	1964 estimate	1965 estimate
Assets:			
Treasury balance	$366,157	$400,000	$373,000
Accounts receivable, net	64,391	80,000	97,000
Policy loans	2,750,273	3,476,000	4,301,000
Policy liens	10,042	14,000	19,000
Total assets	3,190,863	3,970,000	4,790,000
Liabilities:			
Current liabilities	1,277,789	1,385,000	1,488,000
Operating reserves:			
Cash value	20,881,310	24,080,000	27,632,000
Reserve for payments under optional income settlements	4,266,882	4,618,000	4,968,000
Total liabilities	26,425,981	30,083,000	34,088,000
Investment of U.S. Government:			
Appropriation	4,500,000	4,500,000	4,500,000
Deficit	−27,735,118	−30,613,000	−33,798,000
Total Government equity	−23,235,118	−26,113,000	−29,298,000

Status of certain fund balances

	1962 actual	1963 actual	1964 estimate	1965 estimate
Unexpended balance:				
Treasury balance	$263,759	$366,157	$400,000	$373,000
Obligated balance net:				
Current liabilities	1,046,437	1,277,789	1,385,000	1,488,000
Accounts receivable, net (−)	−52,814	−64,391	−80,000	−97,000
Total obligated balance	993,623	1,213,398	1,305,000	1,391,000
Unobligated balance	−729,864	−847,241	−905,000	−1,018,000

Soldiers' and Sailors' Civil Relief Fund

Mr. Ostertag. The next item is the "Soldiers' and sailors' civil relief fund." This is another revolving fund established to record financial data pertaining to Government guarantees to commercial life insurance companies under article IV of the Soldiers' and Sailors' Civil Relief Act of 1940.

The status of this fund is what? This is down to where repayments are estimated at $1,000 and expenses at $17,000, net loss of $16,000 during this next year. Is that right?

Mr. Brickfield. That is right.

SOURCE OF FUNDS

Mr. Ostertag. Does this money show up in the other tables? Where is the appropriation for this?

Mr. Gleason. There is no appropriation for this. No money has been required for this for several years.

Mr. OSTERTAG. You have a deficit of $1,944,000 at the end of the year.

Mr. MONK. But we had $2,300,000 to start out with in that fund and we spent $1,944,718, so we still have some money left.

Mr. GLEASON. We still have $58,000.

Mr. OSTERTAG. Let us insert pages 17–3 and 17–4.

(The pages follow:)

SOLDIERS' AND SAILORS' CIVIL RELIEF FUND

This revolving fund was established to record financial data pertaining to Government guarantees to commercial life insurance companies under article IV of the Soldiers' and Sailors' Civil Relief Act of 1940, as amended. Servicemen may defer payment of premiums while they are in service and for 2 years after discharge. The Government guarantees the payment thereof to the commercial insurance companies if the serviceman defaults.

Any payment by the Government on cases approved subsequent to the October 6, 1942, amendment of the act, becomes a debt owed to the Government by the insured.

In fiscal year 1963, 39 settlements (payments to commercial insurance companies under guaranteed policies) were made in the total amount of $27,690; 40 settlements totaling $39,000 are estimated for fiscal year 1964; and 35 settlements totaling $22,050 are estimated for 1965. Repayments are estimated at $5,000 for 1964 and for 1965.

Statements of income and expense and of financial condition for the past, current, and budget years follow.

Statement of income and expense

	1963 actual	1964 estimate	1965 estimate
Income: Repayments of claims, receivable written off	$1,515	$1,000	$1,000
Expenses: Claims paid and receivables written off	20,424	30,000	17,000
Net income or loss (−) for the year	−18,909	−29,000	−16,000
Analysis of deficit:			
Deficit (−), beginning of year	−1,880,809	−1,899,718	−1,928,718
Deficit (−), end of year	−1,899,718	−1,928,718	−1,944,718

Statement of financial condition

	1963 actual	1964 estimate	1965 estimate
Assets:			
Treasury balance	$67,617	$31,456	$15,456
Claims receivable	39,431	42,826	42,826
Total assets	107,048	74,282	58,282
Liabilities: Current	3,766	----------	----------
Government investment:			
Non-interest-bearing capital:			
Start of year (end of year)	2,003,000	2,003,000	2,003,000
Deficit (−)	−1,899,718	−1,928,718	−1,944,718
Total Government equity	103,282	74,282	58,282

Status of certain fund balances

	1962 actual	1963 actual	1964 estimate	1965 estimate
Unexpended balance: Treasury balance	$91,111	$67,617	$31,456	$15,456
Obligated balance, net: Current liabilities	4,746	3,766	----------	----------
Unobligated balance	86,365	63,851	31,456	15,456

VETERANS' SPECIAL TERM INSURANCE FUND

Mr. OSTERTAG. We have the "Veterans' special term insurance fund." This is another revolving fund established to record financial data pertaining to nonparticipating term insurance issued under section 621 of the National Service Life Insurance Act of 1940.

Let us insert pages 17–5, 17–6, 17–7, and 17–8.

(The pages follow:)

VETERANS' SPECIAL TERM INSURANCE FUND

This revolving fund was established to record financial data pertaining to the nonparticipating term insurance issued under section 621 of the National Service Life Insurance Act of 1940, as amended (38 U.S.C. 723). This insurance was available to veterans who served in the Armed Forces subsequent to April 1951 and who applied for coverage within 120 days after separation from service.

Under Public Law 85–896 (72 Stat. 1716), two additional basic plans were authorized: (*a*) Permanent plan insurance; (*b*) term insurance unrenewable beyond age 50. Policyholders were given the right to convert their original term insurance to a permanent plan or to exchange for the few form of term insurance. Those who converted to a permanent plan also acquired the right to purchase total disability income coverage of $10 per month per $1,000 of insurance (38 U.S.C., sec. 715). The premium rates under the new form of term insurance were less than for the unlimited term insurance.

The fund has an accumulated surplus in excess of its anticipated liabilities. Provision was made (75 Stat. 495) for a one-time distribution of this surplus by payment of a special dividend to policyholders whose insurance was in force during November or December 1960 to January 1961 if they have a permanent or limited-term plan, or convert from unlimited term to permanent or limited term before September 14, 1963. The dividend will be paid also on unlimited-term policies which mature by death on or after the November 1960 premium due date and before September 1963.

Administrative expenses of the program are charged to the general operating expenses appropriation, Veterans' Administration.

Statements of income and expense, and financial condition for the past, current, and budget years are included below.

Revenue, expense, and retained earnings

	1963 actual	1964 estimate	1965 estimate
INSURANCE PROGRAM			
Revenue:			
Funded	$31,829,935	$32,730,000	$34,149,000
Unfunded	141,752	145,000	148,000
Total revenue	31,971,687	32,875,000	34,297,000
Expense	11,219,746	16,127,000	8,771,000
Net operating income	20,751,941	16,748,000	25,526,000
Nonoperating expense: Increases (—) in operating reserves	17,250,098	6,557,000	25,242,000
Net income for the year	3,501,843	10,191,000	284,000
Analysis of retained earnings:			
Retained earnings, beginning of year	9,075,260	12,577,103	16,768,103
Payment of earnings to Treasury		—6,000,000	
Retained earnings end of year	12,577,103	16,768,103	17,052,103

Statement of financial condition

	1963 actual	1964 estimate	1965 estimate
ASSETS			
Cash with Treasury	$7,702,217	$1,029,000	$1,435,000
U.S. securities (par value)	100,588,000	117,000,000	142,000,000
Accounts receivable (net)	158,377	158,000	168,000
Policy loans	1,829,739	2,700,000	3,200,000
Policy liens	9,915	11,000	11,000
Total assets	110,288,248	120,898,000	146,814,000
LIABILITIES			
Current liabilities	8,277,727	8,140,000	8,530,000
Operating reserves:			
Policy reserves	58,748,545	76,770,000	97,690,000
Premium waiver disability	7,030,900	11,420,000	14,692,000
Disability income reserve	2,109,735	2,800,000	3,500,000
Reserve for future installments on matured contracts	4,733,021	5,000,000	5,350,000
Reserve for special dividend	16,811,217		
Total liabilities	97,711,145	104,130,000	129,762,000
Investment of U.S. Government retained earnings (reserved for contingencies)	12,577,103	16,768,103	17,052,103
Total liabilities and investments	110,288,248	120,898,103	146,814,103

Status of certain fund balances

	1962 actual	1963 actual	1964 estimate	1965 estimate
Unexpended balance: Treasury balance and U.S. securities	$88,450,349	$108,290,217	$118,029,000	$143,435,000
Obligated balance:				
Current liabilities	8,234,854	8,277,727	8,140,000	8,530,000
Accounts receivable	−125,082	−158,377	−158,000	−168,000
Total obligated balance	8,109,772	8,119,350	7,982,000	8,362,000
Unobligated balance	80,340,577	100,170,867	110,047,000	135,073,000

National Service Life Insurance Fund

Mr. Ostertag. The last item is the national service life insurance fund. Insert page 17–8 in the record.

(The page follows:)

National Service Life Insurance Fund

This trust fund was established in 1940 as the financing mechanism for the World War II servicemen's and veterans' insurance program authorized by the National Service Life Insurance Act of 1940. Over 22 million policies have been issued under this program. Five million policies with a total face value of $32 billion remain in force. In 1951 the fund was closed to new issues.

Fund assets total $6,196 million as of June 30, 1963. These consist almost entirely of interest-bearing U.S. securities and policy loans. Policy obligations of $5,805 million and current liabilities of $341 million, total $6,146 million in liabilities. Earnings of $50 million are retained as a reserve for contingencies. An estimated income excess over payments will increase the fund's assets to $6,619 million as of June 30, 1965.

Income of the fund is derived from premium receipts, interest on investments, amounts left under optional income settlements, and transfers from the veterans insurance and indemnities appropriation.

The fund is operated on a commercial basis to the greatest extent possible consistent with law. Administrative expenses are charged to the general operating expenses appropriation.

Statements of financial condition for the past, current, and budget years are included below. Fund operating reserves are presented as liabilities on the statements.

Mr. OSTERTAG. Questions on that, Mr. Chairman?

Mr. THOMAS. I have no questions.

Mr. OSTERTAG. That finishes this book.

Mr. THOMAS. We will resume tomorrow at 10 o'clock.

WEDNESDAY, FEBRUARY 12, 1964.

LOAN PROGRAMS

Mr. THOMAS. Gentlemen, will the committee please come to order?

We had just about finished volume I yesterday when we adjourned, but after consultation with members of the committee, we feel it may be better to go back and strengthen our record a little bit under the loan guarantee program.

We felt we ought to get some more details in the record concerning that program, particularly in the field of housing.

This is becoming quite important.

Mr. Miller, how long have you been with the organization?

Mr. MILLER. Since last October, sir.

Mr. THOMAS. Where did you come from?

Mr. MILLER. I have been in the Veterans' Administration——

Mr. THOMAS. You are not plowing in virgin soil then. Anyway, we are delighted to have you, and we look forward to working with you.

Mr. MILLER. Thank you, sir.

Mr. THOMAS. We have been bragging on you folks and you are good, but you have come up with, perhaps, the most disjointed, unconnected, and unrelated budget on housing that I have ever seen. You have enough information in here. You have more information than is contained in a Sears & Roebuck catalog, but it is unconnected, disjointed, and when you get through working your fingernails over it you still do not know what it is all about.

Next year, combine this. You have two revolving funds. Put them in side by side with a narrative. You have fine tables in here but our friend, Mr. Dervan, did not clearly explain them yesterday. I hope we do better today.

Next year give us a narrative on each of your big revolving funds. Show us the loan guarantee fund and a narrative as to what it contains and a narrative on what your direct revolving fund contains, as well as a narrative on your expenses for these programs.

You have the information in here now but you cannot find it yourself. You have to look about five places in the book. You cannot follow it.

Mr. SHYTLE. We put a lot of time on that, Mr. Chairman.

Mr. THOMAS. Put less time on it and more facts in there where we can understand it and where you can understand it.

There is no place I can find what I want in here, and we have worked at it pretty hard. I am sure it is in here if you get a magnifying glass

out, or if 10 of you get together you can find it. How many fee appraisers do you have? What do you pay them and where are they located? What is charged against each one of your funds?

You do not have it in any central place in here, what your overall housing program costs you. What is the cost for your two revolving funds? What are your administrative costs? You have it scattered all over the lot.

Is that clear to you?

Mr. SHYTLE. Yes, sir.

Mr. THOMAS. Let us get started then. Let us take a quick review.

Mr. Dervan, you are a gentleman and a scholar and have been very cooperative and we are not trying to embarrass you a bit, so take your time. You know your subject and the information is there, so take your time and get it for us.

However, it is not in any one place that we can find it.

LOCATION OF LOAN GUARANTEE EMPLOYEES

For your employment, you have 2,740 people you are requesting for 1965 and you have 2,772. That is supposed to be a minus 32. However, your minus figure is way out here and you show 74 in the District; is that correct?

Mr. DERVAN. That is correct, sir.

Mr. THOMAS. Which gives you a total of 2,814 in all for 1965?

Mr. DERVAN. Correct.

Mr. THOMAS. Where are these 2,740 people located?

Mr. DERVAN. They are located in 54 loan guarantee divisions throughout the United States. Those 54 offices and the number in each office were included in the chart which was supplied for the record yesterday.

Mr. THOMAS. Can you read that for the record now, the employment in half a dozen or a dozen of these offices?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. Give us the location and the numbers.

Mr. DERVAN. Yes, sir, I have the December 31 on-duty figures.

Montgomery, Ala., 61; Phoenix, Ariz., 38; Little Rock, Ark., 24; Los Angeles, Calif., 193; San Francisco, 110; Denver, Colo., 64; Hartford, Conn., 17; and in our Florida office, 138——

Mr. THOMAS. Does the Florida office cover the entire State of Florida?

Mr. DERVAN. Yes, sir; it does.

Mr. THOMAS. Where is it located in Florida?

Mr. DERVAN. The Loan Guarantee Division itself is in Jacksonville, Fla.

Atlanta, Ga., 73; Boise, Idaho, 20; Chicago, Ill.—Mr. Chairman, I will take up the larger offices—Detroit, Mich., 178——

Mr. THOMAS. What are the duties and the functions of these people in the field?

Mr. DERVAN. I think that I can point that out best by taking——

Mr. THOMAS. It comes to a total cost for fiscal year 1963 for those people in the field of $19,122,000 which is an increase of $194,000 over last year.

This does not include your 74 people for the headquarters in the District of Columbia, is that correct?

Mr. DERVAN. That is correct.

Mr. THOMAS. Where is their compensation set out?

Mr. BRICKFIELD. In the central office shown on page 8-20.

Mr. THOMAS. Why do you leave this off of this table where you are discussing loan guarantees? Advise me, Mr. Shytle.

Mr. SHYTLE. Mr. Chairman, routinely for the Department of Veterans' Benefits we have shown central office activities separate from the field activities. We have broken the budget down in that manner. This has been historically the case.

Mr. THOMAS. Do you mind breaking history and making it understandable and putting the proper items in their proper places? If you are considering loan guarantee, why not put the costs involved in loan guarantee under "Loan guarantee" where we can see it? This does not give us a complete picture.

Mr. SHYTLE. We could do what you are suggesting, sir.

Mr. THOMAS. It is fundamental. Go ahead.

What is the cost of these 74 people? Where do you find that? What excuse is there for having us chase all over the lot for that item and then still not be able to come up with the total cost.

Mr. DERVAN. Sir, it is not broken out in the table here.

Mr. THOMAS. Mr. Miller, I hope you can improve this budget next year.

Can anybody tell us what the cost is? We are trying to figure out the cost of your whole operation and we have chased all over the lot and we have not found it yet.

Mr. OSTERTAG. In other words, you have loan guarantee personnel of 74 in the central office that are not combined with the field figures; is that right?

Mr. GLEASON. Yes, sir; they are included in the central office totals.

Mr. OSTERTAG. It is not broken down separately.

Mr. GLEASON. They are included as part of central office in the general operating expense of the Department of Veterans Benefits. I think it is my fault, Mr. Ostertag, that they are not combined with the field figures.

Mr. THOMAS. Can anybody come up with a horseback opinion?

Mr. MONK. The salary cost is about $500,000 for those 74 people.

Mr. THOMAS. In round figures, your budget on personnel costs is how much?

Mr. MONK. $21 million with fringe benefits.

Mr. THOMAS. Personnel costs are $21 million and then under "Other objects" which comes in here, making it perhaps—what, $22,250,000?

Mr. MONK. That is right, sir.

Mr. GLEASON. Mr. Chairman, for next year would it be permissible to include it as we have, the entire central office general operating expense and then break it down by divisions?

Mr. THOMAS. There is no objection to that, but set it out so that when we go to that subject matter it will be there in detail. There

is no objection to putting in your central office as a part of that but do not let that suffice because that does not give us any information when we get over here, as far as the total is concerned.

We have to chase back all over a thousand pages here to try to find it.

What are the items or the expenses you charged against this $21 million? Is this nothing but personnel costs, travel, benefits, and so forth?

Mr. SHYTLE. That is right.

LOAN GUARANTEE COSTS OTHER THAN PERSONAL SERVICES

Mr. THOMAS. Do you have any appraiser fees charged against this?

Mr. MONK. Some.

Mr. THOMAS. Which one of the revolving funds is that charged against?

Mr. DERVAN. Speaking with respect to page 8–56, "Loan guarantee"——

Mr. THOMAS. I am not concerned about what you have on the page; I am talking about substance now.

Mr. DERVAN. $21,946,000 includes "Other services" or "Miscellaneous contractual expenses" of $900,000 for fiscal year 1964, and $850,000 for fiscal year 1965.

"Miscellaneous contractual services" include such items as fee appraisals, property inspections, and special land planning surveys.

Mr. THOMAS. Credit reports?

Mr. DERVAN. Yes, sir; sanitation and drainage surveys and credit reports.

NUMBER OF FEE APPRAISERS AND COSTS

Mr. THOMAS (reading:)

The level of these costs for 1964 is estimated to be approximately $28,000 higher than fiscal year 1963. It is anticipated that the cost of credit reports will increase.

For fiscal year 1965, the requirements are estimated to be $50,000 less than 1964 due to diminishing workloads.

You still do not tell us very much. How many fee appraisers do you have and what do you pay them per appraisal, and so forth? They just work the way the language indicates, on a fee?

Mr. DERVAN. That is right. The total number of fee appraisers, sir, as of November 30, was 9,400. There were 4,762 real estate fee appraisers and 4,883 non-real estate appraisers. Some of the 9,400 are qualified as both real estate and non-real estate appraisers. We had 2,201 who were compliance inspectors rather than fee appraisers.

Mr. THOMAS. What part of your appraisal work is done by outsiders and what part is done by your regularly paid staff?

Mr. DERVAN. The great bulk is done by the fee appraisers. They make the original appraisal report to the Veterans' Administration. The report is then reviewed by our staff appraisers in each of the local offices and, based on the appraisal report and the local office review, a certificate of reasonable value is issued.

Mr. THOMAS. You set out here your workload, but you have not told us how many fee appraisers you have and what is the per copy cost. The estimate made yesterday was $15 or $20, but we want it accurate today.

Mr. DERVAN. I could not be precisely accurate today except that I can say with considerable assurance that the average charge for a fee appraisal throughout the United States is probably $25.

Mr. THOMAS. Who pays the cost?

Mr. DERVAN. In respect to appraisals made in connection with veterans seeking GI loans, the charges are paid by the veteran himself. It is also included in the charge which an applicant for a direct loan pays. When we have these appraisals made for our own purposes, for example in connection with appraisals of properties prior to foreclosure, these fees are paid by the Veterans' Administration.

Mr. THOMAS. What is that last statement?

Mr. DERVAN. Immediately prior to the foreclosure of any GI mortgage loan, or a direct loan, Mr. Chairman, an appraisal of the property is made for the purpose of determining its reasonable value. In that instance, the fee is paid by the Veterans' Administration.

Mr. OSTERTAG. That is the only case where the Veterans' Administration pays the fee?

Mr. DERVAN. That is the most common case, sir. There may be others. For example, in special situations in which there are disputes as to the reasonable value, we may bring an independent appraiser in that case to get an independent opinion.

Mr. OSTERTAG. Would the chairman yield further?

Mr. THOMAS. Yes.

Mr. OSTERTAG. I might cite that that is where the GAO report indicates that $520,000 could be saved annually by eliminating the duplicate appraisal functions. You are familiar with their report?

Mr. DERVAN. This has reference to the proposal made by the GAO, sir, that the Federal Housing Administration might make the appraisals for the Veterans' Administration purposes, and thereby avoid so-called duplication.

LOAN GUARANTEE WORKLOADS

Mr. THOMAS. Let us look at this workload.

Let us reinsert the table on page 8–53 in the record.

(The table follows:)

Workloads

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate
Appraisal requests received (units)	350,639	344,600	329,500
GI loan applications	215,184	208,000	195,000
GI loans closed	203,065	190,000	175,000
Direct loan applications received	32,798	24,000	22,400
Direct loans closed and disbursed	18,488	15,000	10,000
Average number of loans owned	226,809	216,800	224,200
Paraplegic grants	350	400	400
Defaults reported	107,945	106,400	104,700
Claims processed	22,940	20,600	16,000
Property acquisitions	25,243	25,400	21,500

Mr. THOMAS. You had a request for 1963 of $350,639. You made estimates on 344,600 and you have reduced that estimate to 329,500. Let us now get down to the actual number of loans closed. Out of loans requested, 350,000, you closed 203,000 in 1963; is that correct?

Mr. DERVAN. In 1963 we closed 203,000 loans; yes, sir.

Mr. THOMAS. That is the final figure.

It is 190,000 in 1964, and the estimated figure is 175,000?

Mr. DERVAN. That is correct.

COMPARISON OF LOAN GUARANTEE AND DIRECT LOAN WORKLOADS

Mr. THOMAS. Let us break this down as between direct loans and loan guarantees. Under "Direct loan applications," is that a separate figure of 32,780, or is that a part of the other?

Mr. DERVAN. It is a separate figure.

Mr. THOMAS. This is in addition?

Mr. DERVAN. Yes, sir; these are direct loan applications as distinguished from guarantee loans.

Mr. THOMAS. In 1964, you estimate 24,000 and how firm is this figure?

Mr. DERVAN. More accurately, sir, I think the more pertinent factor is mentioned in the next line down, "Direct loans closed and disbursed." It shows 15,000 for fiscal year 1964 and through the first half of this fiscal year, we have closed about 10,500.

Mr. THOMAS. What line are you reading from?

Mr. DERVAN. Just below "Direct loan applications received."

Mr. THOMAS. The average number of loans?

Mr. DERVAN. "Direct loans closed and disbursed."

Mr. THOMAS. What does that mean?

Mr. DERVAN. This means the actual number of loans to be closed in fiscal year 1964.

Mr. THOMAS. If you are going to do something, why in the world can you not do it right? Why do you not break it down as between direct loans and guarantee loans, where it can be understood? Set them out separately.

How many direct loans did you close that year? Can you tell from this table?

Mr. DERVAN. Yes, sir; direct loans closed, 1963, 18,488.

Mr. THOMAS. Direct loans closed and disbursed, 18,488?

Mr. DERVAN. Right.

Mr. THOMAS. How firm is this figure of 15,000 for 1964?

Mr. DERVAN. This figure looks low, sir. The first half of the year the total number closed was 10,494.

Mr. THOMAS. You have defaults reported and the figure is 107,000 in round figures for 1963. In 1964, you have claims processed, but what do you mean by that?

Mr. DERVAN. These are the claims received from holders of GI loans which have been processed to the point of having been checked over completely and vouchered for payment.

Mr. THOMAS. That is almost your final step in acquisition?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. Your final step is the property acquisition and you acquired 25,243 in 1963?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. You show acquisition of 25,400 for 1964. How firm is that figure?

Mr. DERVAN. Our estimate is pretty firm. In the first half of this year we acquired about 13,500 and it looks as if we could go as high as 26,500.

Mr. THOMAS. Let us carry that one step further. As betwen direct and loan guarantee, you are 25,400——

Mr. DERVAN. Of this, we would say direct loans would probably be about 2,500.

Mr. THOMAS. Let us put it in some perspective now. The percentage of direct loans closed to loan guarantees is in the neighborhood of about 10½ or 11 to 1.

Mr. DERVAN. That is right; yes, sir, on that basis. However, I see the exact figure as 1,300.

COMPARISON OF LOAN GUARANTEE AND DIRECT LOAN FORECLOSURES

Mr. THOMAS. What about the percentage in foreclosures, direct to loan guarantee? Is it the same proportion?

Mr. DERVAN. The proportion would be about this: Last year we had, roughly, about 22,500 property acquisitions which, in effect, are foreclosures resulting from GI loans.

Mr. THOMAS. You are talking about fiscal 1963?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. You set it out here as 25,300, but what part of that is direct loans?

Mr. DERVAN. Our actual direct loan foreclosure figure for the same year, sir, was 941, to be exact.

Mr. THOMAS. What part of that total would that be?

Mr. DERVAN. About 25 or 26 to 1, sir.

Mr. GLEASON. 3.7 percent.

Mr. THOMAS. The record ought to clearly state loans closed, 203,000 in 1963 in loan guarantees and 18,500 under direct loans, which makes a total of what, in round figures?

Mr. DERVAN. 221,000.

TYPES OF DWELLING UNITS

Mr. THOMAS. These are all what we call single-family units?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. They are all brandnew starts?

Mr. DERVAN. No.

Mr. THOMAS. Part of them?

Mr. DERVAN. Roughly, about 60 percent last year were existing, previously occupied properties; 40 percent of the loans were to purchase newly constructed properties.

Mr. THOMAS. Heretofore constructed and heretofore occupied houses, but were they all houses that the Veterans' Administration had a mortgage on?

Mr. DERVAN. No, sir.

Mr. THOMAS. Do you let the veterans go out and choose any house they want, a secondhand house, so to speak, an occupied house?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. Your program in that regard is the same as the FHA?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. What part of your workload of 221,000 houses last year were new starts and what part were old houses you were purchasing?

Mr. DERVAN. I could give that to you.

Mr. THOMAS. You used a proportion of 60–40. I did not understand which was the 60 and which was the 40.

Mr. DERVAN. The old was, roughly, 60 percent.

Mr. THOMAS. You mean 60 percent of your purchases were for heretofore occupied houses?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. Your new starts were 40 percent?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. Do you have a modernization program after you buy the house?

Mr. DERVAN. The governing law does allow GI and direct——

Mr. THOMAS. It is all single-family units?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. No multifamily or anything else?

Mr. DERVAN. It is one to four family, but for all practical purposes, our business is single family.

Mr. THOMAS. Do you have one to four family units, co-ops, or what?

Mr. DERVAN. No; an individual, and let us take Boston for example, Mr. Chairman, where there are a number of older type properties built in the last 1800's, three- story; a veteran there could buy one of these properties with a GI loan.

Mr. OSTERTAG. Rent the rest?

Mr. DERVAN. Rent the rest.

COMPARISON OF VA VERSUS FHA WORKLOADS

Mr. THOMAS. How does that number of 221,000 stack up with FHA new starts?

Mr. DERVAN. Moving from loans to starts, I have the precise figures here.

In calendar year 1963, there were 70,968 new properties started under the Veterans' Administration inspection procedure. This was 4.5 percent of the total census of nonfarm private starts in 1963. Although I do not have the comparable number of FHA starts——

Mr. THOMAS. What is a houseback opinion?

Mr. DERVAN. That percentage was 10.6.

Mr. THOMAS. Yours was what?

Mr. DERVAN. 4.5.

LOAN GUARANTEES FOR REPAIRS AND MODERNIZATION

Mr. THOMAS. Just what authority do your field offices have under loan guarantee in reference to new starts, direct loans, insurance on

KANSAS STATE LIBRARY
MAY 26 196
MANHATTAN, KANSAS

purchases, on heretofore occupied houses, and so forth? You do not have any major alteration or repair program?

Mr. DERVAN. No, sir. There is very little or virtually none in our program.

M. THOMAS. Have you given any consideration to starting one?

Mr. DERVAN. It is authorized under the governing law. The governing law specifically provides that a GI loan or direct loan may be made for repair, alteration, or improvements to a property already owned by the veteran.

Mr. THOMAS. What is the authorization. How long is the insurance for?

Mr. DERVAN. It can be made on the same terms, Mr. Chairman, as the loan to purchase a house; namely, up to 30 years.

Mr. THOMAS. Is there any dollar limitation on it?

Mr. DERVAN. No, sir; the guarantee is the same as in the purchase loan, up to 60 percent of the loan or $7,500, whichever is less.

Mr. THOMAS. I am surprised you do not do any business.

Mr. DERVAN. The reason for this is that most of the loans are small loans to begin with. The interest rate is 5¼ percent.

The modernization program under the FHA is the title I program which involves a discount rate which is the equivalent of about 9 percent.

Mr. THOMAS. FHA has a 20-year program up to $10,000?

Mr. DERVAN. That is a separate program; yes, sir.

Mr. THOMAS. That is the big one?

Mr. DERVAN. On minor repairs, sir, up to $2,500. The lender will go FHA rather than——

Mr. THOMAS. They can go directly to the bank and get that?

Mr. DERVAN. Yes, sir.

AUTHORITY OF FIELD OFFICES IN LOAN GUARANTEE PROGRAM

Mr. THOMAS. You are in the business of issuing insurance for either single-family new starts or single-family houses heretofore occupied. What authority do your local offices have?

Mr. DERVAN. Basically, it resolves itself into three functions: First of all, is the appraisal of proposed construction, houses to be constructed under this program, the appraisal and valuation of existing, previously occupied properties, which individuals desire to buy with GI financing or with direct loan financing.

Second, our offices are concerned in the broad major field of servicing defaulted GI and direct loans.

Mr. THOMAS. That has become a major activity with you now?

Mr. DERVAN. Very much.

Mr. THOMAS. That ought to be a minor activity but that is one of your biggest activities?

Mr. DERVAN. It is very important.

Mr. THOMAS. What authority does your regional office have in the field? That is what I am getting at. Do you have a divided authority with the regional office manager, and does he have direct authority over this, or do you have a separate man in the loan guarantee section who is in charge?

Mr. DERVAN. The manager, sir, has prime responsibility for the overall operation of the loan guarantee activity. The technical direction of that program is in the hands of the loan guarantee officer. He makes all of the technical decisions and any broad policy decisions which would come up in this connection would be taken up with the manager and would probably be submitted to the central office for consideration and decision.

GRADES OF LOAN GUARANTEE OFFICERS AND EMPLOYEES

Mr. THOMAS. What is the usual civil service classification of your loan guarantee manager?

Mr. DERVAN. That is shown in a chart on page 8–15.

Mr. THOMAS. Is this the average office?

Mr. DERVAN. This is a typical office; yes, sir.

The loan guarantee officer would be a GS–14 as shown on this chart; a section chief functioning as assistant loan guarantee officer would be a GS–13.

Another section chief, probably the chief appraiser, would be GS–12. The four GS–11's would be two section chiefs; one a head of the property management operation and the other the head of the loan servicing.

The other two would be a construction analyst and a senior appraiser.

The three GS–10's, one probably would be a direct loan agent and the other would be a senior loan examiner. The other would be a senior loan service representative.

The GS–9's would be journeymen loan examiners, appraisers, and loan service representatives. The rest primarily, clerical.

Mr. THOMAS. Thank you very much. We are going to give you an A this morning.

Mr. DERVAN. I can use it, sir.

DIRECT LOAN REVOLVING FUND

Mr. THOMAS. Let us see if we can correlate this now with your disrect loan program.

Let us turn to page 13–1 and reinsert this page in the record.

(The page follows:)

DIRECT LOANS TO VETERANS AND RESERVES REVOLVING FUND

This fund permits the Veterans' Administration to make direct loans to eligible veterans in areas designated by VA where guaranteed loans are not generally available from private lending sources. Direct loans may be made to purchase, construct, or improve a home; to purchase a farm on which there is a farm residence to be occupied by the veteran as his home; or to construct, alter, repair, or improve a farm dwelling to be occupied by the veteran as his home.

The direct loan program was initiated under provisions of Public Law 475, 81st Congress, approved April 20, 1950, to run through June 30, 1951. Subsequent amending legislation has extended the program to July 25, 1967, for World War II veterans and to January 31, 1975, for Korean conflict veterans.

Funds available for making direct loans consist of periodic U.S. Treasury advances, the proceeds of principal repayments on loans made, and the proceeds from the sale of direct loans to private investors. From the beginning of the

direct loan program in 1950 through June 30, 1963, a total of about $2.4 billion had become available for making direct loans from the following sources:

U.S. Treasury advances	$1,730,077,996
Principal repayments	441,313,904
Proceeds of sales to private investors	265,279,189
Total	2,436,671,089

Of the total availability as of June 30, 1963, almost $2 billion had been used to make direct loans; an additional $109.4 million was reserved for loans in process; an amount of $869,000 was outstanding in fund reservation commitments to builders or sponsors for direct loans on new houses they propose to construct for veteran purchasers; and funds amounting to $105.7 million had been tranferred to the loan guarantee revolving fund. This left a balance of $230.8 million in unreserved funds available for processing loan applications from veterans.

Expenses involving loan closings are paid by the veteran; foreclosure expenses, property management and sales expenses, and interest on borrowings from the Treasury are met from interest income. Administrative expenses are borne by the appropriation for "General operating expenses, Veterans' Administration."

AMOUNT OF TREASURY ADVANCES AND BALANCES

Mr. THOMAS. What is your authorization and unexpended balance as of some recent date?

Mr. DERVAN. I can supply that or explain it this way: We came into fiscal year 1964 with $280 million unused from fiscal year 1963. The authorization for fiscal year 1964 is $150 million, thereby making a total of $430 million in gross. This gross has to be reduced by the amount of direct loans sold last year; namely, 1963, in the amount of $180 million. Consequently, as of now, sir, our unused authorization is $250 million.

Mr. THOMAS. What was the total availability as of June 1963? What were you authorized to go to the Treasury and get as of that date? Do you have that figure?

You say that almost $2 billion had been used to make direct loans?

Mr. DERVAN. Yes, sir.

Mr. THOMAS (reading):

An additional $109.4 million was reserved for loans and processes; an amount of $869,000 was outstanding in the fund reservation commitments to builders or sponsors for direct loans on new houses they proposed to construct. This left a balance of $230.8 million in "Unreserved funds" available for processing loan applications for veterans.

AUTHORIZED CHARGES TO DIRECT LOAN REVOLVING FUND

What are the expenses involved in this district loan account? This is the revolving fund, but what do you charge to this?

Mr. DERVAN. We charge the foreclosure expenses which are incurred.

Mr. THOMAS. Only in direct loans?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. Are there any administrative expenses charged whatsoever against this?

Mr. DERVAN. No, sir; salary and administrative expenses are borne by——

Mr. THOMAS. Expenses involved in loan closing, foreclosure expenses, property management, and sales expenses?

Mr. DERVAN. And interest.

DIRECT LOAN FORECLOSURES

Mr. THOMAS. The next table here we tried to go into yesterday but it is disjointed and disconnected.

Where do you have a table on the direct loans foreclosed? What is that number?

Mr. DERVAN. The number of foreclosures I supplied was 941 in fiscal 1963. Commulatively, through December 31, 1963, there have been 3,733 foreclosures.

Mr. THOMAS. It is not on page 8–53?

Mr. DERVAN. No, sir; it is not.

Mr. THOMAS. How many?

Mr. DERVAN. 3,733.

Mr. THOMAS. What does that 3,733 cost from this fund?

Mr. DERVAN. This is on page 13–3.

Mr. THOMAS. Is that the overall cost?

Mr. DERVAN. On the real property acquired, sir, this is shown on page 13–3 and is the last one on the bottom of the page.

Mr. THOMAS. You have there the number of loans, the loans outstanding, and the real property acquired. Is this last paragraph what you are talking about?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. You say properties are acquired through foreclosure and voluntary conveyance of defaulted loans?

Mr. OSTERTAG. Is that dollars?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. Break it down. What did you spend it for? I do not find it here on page 13–2 either.

Mr. DERVAN. For all of the costs incident to the acquisition of the 3,733 properties. This would be attorneys' fees, advertising, court costs, et cetera.

LOSSES PER DIRECT LOAN FORECLOSED

Mr. THOMAS. How much is that per house?

Mr. DERVAN. I am not that quick with arithmetic.

Mr. THOMAS. This is just getting it back, but you have not shown us yet, and I do not find here how much you lost on each house. That is just getting it back. You have not put it in shape and paid the expense for doing a little touching up, a little painting, modernization, sales, and everything else?

Mr. DERVAN. The amount of loss is not shown here. However, I can state that based on fiscal year 1963 experience on direct loan cases, speaking only in respect to properties sold in fiscal year 1963——

Mr. OSTERTAG. I might say in response to the Chairman's question, that if I figured this correctly it is about $2,000 a property.

Mr. DERVAN. I was going to say that after taking into account all expenses incurred by the Veterans' Administration after acquisition of the property, such as fixing the property up with repairs, maintenance—and this involves lawn mowing, et cetera, and the payment of fees to the property management broker and ultimately the payment of sales brokers' commission when the property is sold—the average loss per direct loan property sold in fiscal 1963 was $1,145.

Mr. THOMAS. I thought we used a figure of $1,300 yesterday.

Mr. DERVAN. That, sir, was in respect to the properties which were acquired in the guaranteed or insured loan program.

Mr. THOMAS. You are confining that $1,100 per house to the direct loan?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. Can you break down the $7,547,000 figures for 1963? This is getting the property back?

Mr. DERVAN. Yes, sir; this is just getting the property back on our books.

Mr. THOMAS. On the 3,733 units? Is that the cost you gave us per house in getting it back?

Mr. DERVAN. About $2,000.

Mr. THOMAS. No. Can that be?

Mr. OSTERTAG. Certainly.

Mr. THOMAS. About $2,000?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. Where is your $1,100 then? Where is your cost on doing a little painting, restoring it to order, and paying somebody to sell it for you as well as somebody to maintain it before you sell it?

Mr. DERVAN. Sir, I think I can explain that.

Mr. THOMAS. Your $1,100 has already evaporated and you have $2,000 here.

Mr. DERVAN. Sir, when the property is acquired, we put it on our books as involving a cost of acquisition which is equal to the amount of the unpaid balance of the direct loan indebtedness when it was foreclosed. To that we add all payments of real estate taxes; we add all maintenance charges, such as lawn mowing, shoveling snow if it is in an area——

Mr. THOMAS. We understand all those things, but get down to the meat in the coconut.

Mr. DERVAN. Then we sell the property and we take the net amount realized and subtract it from the total cost. When this is done for each property and all of this averaged up for all properties sold——

Mr. THOMAS. You had better get your bookkeeping in shape so anybody can understand it. The way it is now, it is not realistic. Are you saying this is a case where you have a veteran in the house for 2 years and he has built up a little equity in the house, but when you foreclose he loses his equity?

Mr. DERVAN. Yes, sir; he loses it.

Mr. THOMAS. You are bound to do some fancy bookkeeping there, because if it shows here as a loss of $2,000 in acquisition, you cannot absorb that loss and spend another $500 or $600 to get it down to $1,100. Where is your fancy bookkeeping here? Do you take advantage of his equity or what do you do?

Mr. DERVAN. This is reduced by any rentals that are obtained——

ACQUIRED PROPERTIES RENTED PRIOR TO SALE

Mr. THOMAS. You know there is no such thing, as a practical matter, of any rentals while you are trying to sell a property. You do not do much renting. You are not in the business of renting houses, but in the business of selling them.

Mr. DERVAN. We have about 4,300 properties rented in the United States today.

Mr. THOMAS. You have around 25,000. They are producing some income.

Mr. DERVAN. 22,200.

Mr. THOMAS. Do you have a contract of sale along with the rent?

Mr. DERVAN. The tenant is moved from the property, and the property is sold to the purchaser.

Mr. THOMAS. Explain how you reduce the loss. If it cost you $2,000 to get hold of a property, get title back in your hands, then you have to keep it 3 or 4 or 5 or 6 months, doing painting, paying somebody to sell it, paying interest and incurring other expenses all during that time. How is it, with those items of expense, you can reduce your loss from $2,000 down to $1,100? That is a Houdini.

Mr. DERVAN. The only answer is the offset from rental.

Mr. THOMAS. Mr. Shytle, can you explain that? There is fancy bookkeeping here or else your figures are wrong.

Mr. SHYTLE. To understand these funds, you have to sleep with these things day and night.

Mr. THOMAS. If you just write it out in narartive form, we will understand it or run you crazy.

Mr. SHYTLE. We are going to do our best to do what you suggested, next year.

Mr. THOMAS. Does anybody understand it now? Off the record.

(Discussion off the record.)

ACQUIRED PROPERTIES ON HAND

Mr. THOMAS. How many properties did you carry over into 1963?

Mr. DERVAN. We carried over from June 30, 1963, a total of 23,783 properties.

Mr. THOMAS. I am talking about direct loans.

Mr. OSTERTAG. That is total properties.

Mr. DERVAN. Both GI and direct.

Mr. OSTERTAG. Of which how many are direct?

Mr. THOMAS. How many directs did you carry over into 1963. In 1963 you acquired 37,033 more. In other words, how many did you have at the end of 1963.

Mr. DERVAN. I would say about 800.

ACQUIRED PROPERTY COSTS

Mr. THOMAS. You sold that many? How much did you acquire from rents alone in 1963? Then I am going to ask you how much interest you paid. You can get them both right together. My guess your interest far exceeded your rental income.

Mr. MONK. I think part of the trouble is the $2,000. I do not think the $2,000 figure is right.

Mr. THOMAS. It cannot be right.

Mr. OSTERTAG. Not the way it balances out.

Mr. THOMAS. The figure is bound to be too high.

Mr. OSTERTAG. I know it.

Mr. MONK. How did we derive the $2,000?

Mr. DRIVER. It was derived by dividing 3,733 into the $7.5 million.

Mr. OSTERTAG. You have your 3,700 properties, and the amount is $7,554,000.

Mr. MONK. This is wrong.

Mr. THOMAS. The purpose of this examination is to show the weakneses in your bookkeeping system and your budget presentation. I hope we have accomplished that purpose.

Mr. MONK. You certainly have.

Mr. THOMAS. Mr. Ostertag.

Mr. OSTERTAG. On this loan guarantee revolving fund, page 14–1, we discussed this briefly yesterday. You might give us a better picture of the whole setup here.

The program of activity, of course, includes real properties acquired. I note that there is a reduction there of about $30 million. Is that about what it will figure this next year?

Mr. DERVAN. Yes, sir. We are predicting a lesser number of properties to be acquired than in fiscal 1963, sir.

Mr. OSTERTAG. The claims paid will be substantially less and loans acquired will be about the same. Repurchase of loans sold will remain about the same as the last fiscal year. Capital improvements to acquired properties is increased $200,000. We have discussed your operating costs to some extent.

If I understand your situation, you desire to remove the limitation applicable to the next fiscal year.

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Off the record.

(Discussion off the record.)

SALE OF VENDEE LOANS

Mr. OSTERTAG. In your statement, Mr. Administrator, you indicate, and I quote:

> Experience to date in 1964 indicates that our estimated cost of $290 million may be too low.

Is that right?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Going on, continuing to quote:

> The principal source of revenue to meet these costs continues to be provided by the sale of vendee loans. Our budget estimate proceeds from this source of $224 million in 1964 and $265 million in 1965. These estimates assume a favorable market for these loans. If such a market is not available or if expenditures substantially exceed our estimates, it may be necessary for us to request supplemental appropriation relief.

What I am trying to get at is this. You say your estimates assume a favorable market.

Mr. GLEASON. In the sale of our vendee accounts.

Mr. OSTERTAG. But this is all associated with your revolving fund?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Your proceeds will be higher this next year than this year?

LOAN GUARANTEE FUND LIMITATION

Mr. GLEASON. We hope that the proceeds of our sales will reach $265 million in 1965. If we reach that, we will have sufficient moneys

to pay the claims. But we will be limited in the amount of money that we can pay out by this limitation that we have asked relief on.

Mr. OSTERTAG. Your limitation is $300 million?

Mr. GLEASON. Yes, sir, for fiscal year 1964.

Mr. OSTERTAG. You feel that you will be hitting the ceiling?

Mr. GLEASON. Yes, sir. We feel we will be hitting the ceiling before the end of fiscal year 1964. That is why we are requesting relief from the limitation of $300 million.

Mr. THOMAS. Mr. Ostertag, will you yield briefly for one point there?

Mr. OSTERTAG. Yes, Mr. Chairman.

SOURCE OF DIRECT LOAN FUND PROFIT

Mr. THOMAS. Can we tie in now the loss, if any, between your two revolving funds? Heretofore your direct loan revolving fund showed a profit; is that right?

Mr. GLEASON. Yes, sir, and still does.

Mr. THOMAS. How does that profit originate? Where is your breakage and what is your breakage?

Mr. GLEASON. We get the advantage there from the amount of money we have to pay in interest to the Treasury and what we get from the GI.

Mr. THOMAS. Call that breakage. What is the breakage involved?

Mr. DERVAN. It is about 1.3 percent.

Mr. THOMAS. You ought to make plenty of money on that.

Mr. GLEASON. We are making money on it.

Mr. THOMAS. What is the status of the fund as of January 1 this year? You have a breakage in there. You go to the Treasury and borrow money at 4 percent. You charge the veteran what?

Mr. GLEASON. 5¼ percent.

Mr. THOMAS. You have breakage of about 1¼ percent. The overall program, you have made money and you borrowed money from the Treasury and put it into the revolving fund. What is the status of your direct loan fund as of January 1 or some recent date?

Mr. DERVAN. As of January 1, the retained earnings remaining in the fund after transfers to the loan guarantee revolving fund——

Mr. THOMAS. That is a borrow. Let it stand on its own feet.

Mr. DERVAN. It is about $124 million.

Mr. THOMAS. After paying what expenses?

EXPENSES OF DIRECT LOAN REVOLVING FUND

What are your expenses? Repeat them. All the costs involved in direct loans and getting the property back in your hands. Does it stop there?

Mr. DERVAN. And in disposing of the property.

Mr. GLEASON. Losses occurred in disposing of it.

Mr. THOMAS. All your losses in acquiring and selling. It still shows a profit?

Mr. DERVAN. Yes, sir.

Mr. THOMAS. As far as the fiscal 1963 is concerned, what does it show on that one year? You lost.

Mr. DERVAN. No, sir.

Mr. MONK. For the 6 months July 1 through December 1963, we showed a net profit of almost $7 million.

Mr. GLEASON. $6,786,000.

Mr. THOMAS. Even with the 3,733 acquired properties at a loss of——

Mr. GLEASON. $1,100.

Mr. THOMAS. $2,000. You still need $7.5 million? They will get you for usury.

What is the FHA breakage? Is it one-fourth of 1 percent?

Mr. MONK. One-half of 1 percent.

Mr. THOMAS. A half or a quarter?

Mr. DERVAN. The FHA——

Mr. THOMAS. We are asking you a simple question. You know what it is. It is a quarter of 1 percent or a half of 1 percent.

Mr. DERVAN. It is a half percent.

LOSSES IN LOAN GUARANTEE REVOLVING FUND

Mr. THOMAS. You folks get 1¼. You get three-fourths of 1 percent more than they do. With that three-fourths of 1 percent more, you did not show a loss in this account. What loss do you show in the loan guarantee?

Mr. DERVAN. $27 million, sir.

Mr. THOMAS. Is that one for 1 year or is that an accumulated figure?

Mr. DERVAN. This is an accumulated figure.

Mr. THOMAS. Up to when?

Mr. DERVAN. December 31, 1963.

Mr. THOMAS. What period of time does it cover?

Mr. DERVAN. Since the inception of the program in 1944.

Mr. THOMAS. 1944. That figure of $27 million looks heavy. What was the loss for 1963?

Mr. DERVAN. About $13 million, cumulatively, as of June 30, 1963.

Mr. THOMAS. Let us keep it at $13 million. If we go any further, we are liable to increase it. What was the cost to the Veterans' Administration for the loan guarantee section in 1963?

Mr. DERVAN. On this basis, sir, the loan guarantee operation, I would say was roughly about $13 million, approximately $8 million having been added in fiscal year 1963.

Mr. THOMAS. What was the total to the taxpayers?

Mr. MONK. You cannot determine that yet because we have taken in properties that still are carried on our books as an asset. Until these properties are disposed of, you cannot determine finally and definitely——

Mr. THOMAS. You are building a good case for increasing the $13 million. We are trying to hold it at $13 million because the longer you hold them, the chances are the more you lose. Let us leave it at $13 million. That is big enough. You are going to have to add your $13 million to your general administrative expense. How much was that?

Mr. SHYTLE. $20 million.

Mr. THOMAS. Around $22.5 million, adding the 74 people in Central Office. Your $22.5 million plus $13 million is approximately $35.5

million cost. That is a pretty accurate figure, is it not? There is a whole lot of difference between that and $21.9 million you have set out here.

Next year pull it all together and give us a narrative. Your tables are fine, but who understands your tables without a narrative? Not even your experts understand them. Mr. Ostertag.

LOAN GUARANTEE REVOLVING FUND LIMITATION

Mr. OSTERTAG. I have one general observation. That has to do with the complicated and confused picture we were confronted with here on this whole problem of the loan guarantee and direct loans, including that of the revolving funds. I think everyone understands the basic arrangement under which a revolving fund operates and what its purposes constitute. But this $300 million limitation that is part and parcel of the law today is associated with payments for expenses. Is that not correct?

Mr. GLEASON. Claims; yes, sir.

Mr. OSTERTAG. Payment of expenses, property acquisitions, other loan guarantee operations under the law. Of course, it further provides that the retained earnings of the direct loans to veterans and reserved revolving fund shall be available for transfer to said loan guarantee revolving fund in such amount as may be necessary to provide for the foregoing expenses.

In your budget, on the program of activities, if I read your estimate right, it amounts to $257 million for fiscal 1965. Is that correct?

Mr. BRICKFIELD. That is right.

Mr. OSTERTAG. $257 million is considerably less than the $300 million limitation.

ESTIMATE OF EXPENSES VERSUS LOAN GUARANTEE LIMITATION

Mr. GLEASON. I have to point out to you that this is sticking to the Fanny Mae price right now of par. We cannot sell below Fanny Mae. If we could sell at 101 or less right now, we could sell maybe $350 million or $400 million of these vendee accounts. As it is, we think that, as we mention out here, we can sell $265 million in 1965.

That, together with what we already have in the revolving fund, we can pay the claims that will be presented to us in fiscal year 1965. We will be able to pay them. But we have a limitation of $300 million. Our estimates are that this will be more than $300 million, so that by law when we get to $300 million, we cannot pay out any more even though we have the money.

Mr. MONK. Mr. Ostertag, to go back to the figures you are referring to in the budget, you will notice in 1964 we estimate $292 million, 1965 is $257 million. This is expense.

The $292 million today we are saying looks to us like this is going to be closer to $360 million for 1964. We have a limitation by law that we can only spend $300 million. So that unless we get a limitation increase, we will not be able to pay our claims.

For 1965, although the budget shows $257 million, if the trend continues, then our expense for 1965 will far exceed the $257 million. So that we will need certainly more than $257 million in limitation.

If you were to write into our law for 1965 a limitation of $257 million, you would meet what the budget says, but we are saying today that it looks like we will far exceed the $257 million.

Mr. OSTERTAG. Is that associated with the market or the number of foreclosures?

Mr. MONK. It is associated directly with the number of foreclosures and number of claims paid because that is by far the largest amount of our expenses.

Mr. OSTERTAG. But the market is associated with the foreclosures; is it not?

Mr. GLEASON. No, sir; this is on sale of vendee accounts.

Mr. OSTERTAG. I am talking about disposal of the properties you acquire by foreclosure.

Mr. MONK. That is associated with the market. That is where we get the money to pay our bills.

Mr. OSTERTAG. The picture is favorable; is it not?

Mr. DRIVER. Yes, sir; but when we sell a house, we take back the mortgage. We only get a portion of the money at that point to pay claims with.

Mr. THOMAS. Gentlemen, this all adds up to one big glaring fact, which is that we had better avoid so many foreclosures.

The record shows that World War II GI's—how many of them have exhausted their GI loans? About 40 percent of them only have exhausted their GI loans. What is the percentage of the Korean veterans?

Mr. DERVAN. 20 percent.

Mr. THOMAS. Only 20 percent. Let us not let the program get sour now by taking on too many bad risks. We have to be more careful. You have 74 people here in the District of Columbia, but actually your work is done in the field. I do not know what your 74 people are doing here. But the time to act is before we get into trouble and not after we get into trouble. You have these unfortunate economic conditions in about 12 States. Nobody can be certain about economic conditions. You have to use some better judgement, to say the least, than you have been using in the past.

DEPARTMENT OF MEDICINE AND SURGERY

Gentlemen, let us go to volume No. 2 and take up medicine. This is the first time we have had the privilege and pleasure of having Dr. McNinch here, the Chief Medical Director, to talk to us. Do you have a general statement, Doctor?

GENERAL STATEMENT

Dr. MCNINCH. Mr. Chairman and gentlemen, thank you for the opportunity to discuss the major changes in Veterans' Administration medical programs contemplated by the 1965 fiscal year budget estimate you now are considering. I shall confine my remarks to items which I believe will be of special interest to this committee, since the Administrator already has summarized the needs for increased medical program appropriations.

QUALITY OF VA MEDICAL CARE

In accepting my present position I have also accepted the program objective which is contained in the Veterans' Administration congressional submission on page 18–3 and which has been included in previous submissions; namely, "The quality of medical care provided by the Veterans' Administration shall be maintained at a level comparable with the best civilian institutions treating similar types of illnesses." Since I have been with the Veterans' Administration I have received a number of letters from and become aware of a number of statements by deans of medical schools affiliated with the Veterans' Administration medical program and members of their faculties, indicating that in their opinion the quality of Veterans' Administration medical care program in recent years has not kept pace with the quality of care provided by the best civilian institutions.

Mr. THOMAS. That is a rather disturbing statement. You have had eminent predecessors. The last was a dean of one of the fine medical colleges in the United States. We were led to believe that perhaps no better medicine than that of the VA was to be had in any hospital. It was good for the simple reason that the vast majority of your big new hospitals are adjacent to these medical colleges and research institutions, that perhaps the brains in those VA hospitals were furnished not by VA but by the colleges and universities themselves.

When did we get this very adverse report?

Dr. MCNINCH. I can only repeat that since I have been with the Veterans' Administration I have received a number of letters and have heard a number of statements.

Mr. THOMAS. Do you have one you could read in the record—a typical one? Did your predecessor take his files? We would like to see some of the letters from those same colleges. I note you go up in your budget estimate this year for medical care about $24,170,000 and in the last 5 years for inpatient care you have gone up about 40 percent. In all that time you have been tied down to a limitation of 125,000 beds.

On top of that, you have come here for an increase of $24,170,000. You explain that.

Dr. MCNINCH. Mr. Chairman, if I may go on, I think what I have to say has some bearing on what I have just said.

Mr. THOMAS. I beg your pardon for interrupting. We are just pointing out what your problem is.

Dr. MCNINCH. At the present time I do not know whether these allegations are indeed true, and I accept the 1965 budget request prepared by my predecessor and submitted by the President to be conservative but adequate and believe that this budget, as submitted, should make possible some progress in improving the quality of the medical program. However, although I do not know at this time whether these allegations are true or not, I believe that I have a deep obligation to satisfy myself on this point during the coming months.

I am very much aware that the cost of medical care throughout the Nation has risen steadily since 1946 and all evidence points to a continuation of this rise. Major factors in the increasing costs are

the increased pay of medical service personnel, the increased number of such personnel necessary to provide essential services to patients in accordance with modern medical concepts, increased costs of supplies and materials, and increased complexity of diagnostic and therapeutic services and equipment. There is no reason to believe that Federal medical care programs are exempt from these influences.

TOTAL MEDICAL BUDGET

The President has requested an appropriation of $1,167,837,000 in the 1965 fiscal year for financing all activities of the Department of Medicine and Surgery, and certain administrative expenses of the Office of the Assistant Administrator for Construction. This sum is the aggregate amount requested under three separate appropriations, all directly related to medical treatment and care of America's veterans.

Of the total, 95.6 percent or $1,115,935,000 is requested under the "Medical care" appropriation head for maintenance and operation of Veterans' Administration hospitals, domiciliaries, and outpatient clinics; care of eligible beneficiaries in contract hospital facilities; and aid to State or territorial homes for support of veterans eligible for care by the Veterans' Administration. About 3.1 percent of the total, or $36,987,000, is requested for programs of medical research and prosthetic testing and development. For these activities, the appropriation again is requested under the no year funding arrangement. In addition, the construction of hospital and domiciliary facilities appropriation estimate for fiscal year 1965 includes $6,414,000 for construction of research facilities, not otherwise provided in complete hospital replacement or modernization projects.

Less than 1.3 percent of the total, or $14,915,000 is requested under the "Medical administration and miscellaneous operating expenses" appropriation for the administration by central office and area medical offices of all medical programs of the Veterans' Administration; a program of education and training to support the medical care programs; and technical staff and services required for the agency's construction program.

For all medical programs, this budget estimate reflects an increase of $27,530,000 over the anticipated availability for the current year. Of the $27,530,000 increase, $17,992,000 or about 65 percent, will be required for continuance of operations at fiscal year 1964 levels—that is, to pay the higher salary rates resulting from Public Law 87–793 and within-grade salary step increases. The 35 percent remainder, or $9,538,000 of the increase, relates to planned workload and program changes including activation of newly constructed medical facilities.

The average daily beneficiary load to be furnished care and treatment on an inpatient basis in fiscal year 1965 is estimated at 137,622, comprised of 110,318 in Veterans' Administration hospitals, 15,448 in Veterans' Administration domiciliaries, 2,756 in contract hospitals, and 9,100 in State soldiers' homes.

The trend of improved patient turnover continues. Increased numbers of patients are being treated in our hospitals each year, despite the continued growth in numbers of aging veterans who require treatment for long-term illnesses and disabilities.

QUALITY OF MEDICAL CARE

Mr. THOMAS. Did any of these university professors criticize the Veterans' Administration for running patients out of the hospital too soon or not letting them stay there long enough?

Dr. MCNINCH. I do not recall that, sir.

Mr. THOMAS. They said they were just getting second quality medicine?

Dr. MCNINCH. They did not say that, either. They said care in Veterans' Administration had not kept pace with that provided in the best of the institutions.

Mr. THOMAS. What does that mean; second quality, or third quality, or what? If it has not kept pace with the best, where does that put it, second best or third best?

Dr. MCNINCH. I do not think that the quality of medical care can be answered in a simple statement.

Mr. THOMAS. You made one. I do not know why you cannot answer it the same way. You said it was criticized, that it had not kept pace with the best. If it is not the best, then it is second best.

Dr. MCNINCH. The Federal budget is $97 billion. That is a simple statement, but a discussion of it takes much longer.

Mr. THOMAS. Are you an expert on that, too?

Dr. MCNINCH. No, sir.

Mr. THOMAS. Excuse me. Go ahead.

Dr. MCNINCH. Do you wish me to read the rest of my statement, sir, or discuss the quality of medical care?

Mr. THOMAS. Go ahead, Doctor. It is your pleasure.

WORKLOAD

Dr. MCNINCH. We expect to treat about 730,000 patients in Veterans' Administration hospitals in fiscal year 1965 which is an increase of 10,000 more patients than we expect to treat in fiscal year 1964.

Outpatient workloads planned for fiscal year 1965 consist of about 6,012,000 patient visits for medical purposes, 41,000 denal examinations, and 50,000 dental treatment cases. Five additional psychiatric day-care centers are scheduled for activation in the fiscal year 1965. These facilities will be located at Cleveland, Ohio; Dearborn, Mich.; Little Rock, Ark.; Houston, Tex.; and Albuquerque, N. Mex.

Upon completion of construction at the Wood, Wis., San Francisco, Calif, and Washington, D.C., hospitals in fiscal year 1965, the outpatient clinics in those cities will be consolidated at the hospitals. This will afford veterans in those localities with the broader range of medical services found in a hospital setting.

RESEARCH

Modest growth will be possible in fiscal year 1965 to our programs of medical and prosthetic research and to the education and training opportunities offered Veterans' Administration treatment staff. These activities are inextricably linked to our efforts to recruit and retain the type of physicians and other health service personnel that will

assure our patients receive the best possible care and treatment. Without opportunity for continued education and research activity, these personnel will not stay with Veterans' Administration. The results of their research work are invaluable to the treatment of veterans and are shared throughout the medical world in order that all sick and disabled may benefit.

EMPLOYMENT

More than 154,000 full-time or part-time employees will be engaged in the conduct of agency medical programs at over 200 field installations in the 1965 fiscal year. The combined administrative staff that will be on duty in the central office and area medical offices will average 882 employees.

It must be my objective to provide resources necessary for the best possible quality of care to the American veteran. You can also be assured that I intend to carefully analyze the administration of our large and complex program in an effort to achieve optimum efficiency and economy.

I appreciate this opportunity of appearing before you and I, together with my staff, will endeavor to answer any questions which you may have.

Thank you.

If I may return one moment to the question of the quality of medical care, I refer back to the statement that I think I have a deep obligation to satisfy this myself on that point.

Mr. THOMAS. How long have you been on board, Doctor?

Dr. MCNINCH. About 8 months, sir.

Mr. THOMAS. How long will it take you to make up your mind wether you are running a first-rate hospital or not?

Dr. MCNINCH. Perhaps 8 or 9 months more.

INCREASED COSTS OF MEDICAL CARE IN 1965

Mr. THOMAS. Well, you have one question here that sort of puzzles me. You have an increase for inpatient care of about $24 million, in round figures, and you will take 10,000 more patients. Of course, that is an estimate, but assuming it is true, what part of your increase is due to salary increases?

Mr. GLEASON. $13 million.

Mr. THOMAS. What is the figure for inpatient care?

Mr. GLEASON. $13 million is attributable to the increased salary cost; $6 million is attributable to adequately maintaining existing facilities; $3 million for additional workload requirements——

Mr. THOMAS. I am talking about inpatient care. Is $13 million your salary cost?

Mr. GLEASON. Yes, about $13 million for salary increases.

Mr. THOMAS. That is about one-half of your $24 million-plus. How much does it cost per patient per year? You said you will take in 10,000 more patients at an increase of $24-million-plus. One-half of the $24 million is pay increase. What does it cost you outside of that?

Dr. MCNINCH. It will cost more to treat the patients we will treat at the present level as well as the 10,000 additional patients.

Mr. THOMAS. Why?

Dr. McNinch. The cost of medical care is rising, as I have pointed out, due to increased pay and the increased number of personnel to provide essential services to patients.

Mr. Thomas. You have an increased personnel cost here of about $12 million in inpatient care. Does that take care of all your wage board employees too?

Mr. Gleason. No, sir.

Mr. Thomas. That is in addition?

Mr. Gleason. Yes, sir.

Mr. Thomas. What is this $12 million for inpatient care for then? That is increase in pay. Who gets that?

Mr. Monk. Doctors, nurses, dentists.

SALARY COSTS OF WAGE BOARD EMPLOYEES

Mr. Thomas. What was the increase for the wage board employees last year?

Mr. Monk. $11 million in the supplemental.

Mr. Gleason. $10,500,000.

Mr. Thomas. Your whole $24 million, practically, is for wage increases?

Mr. Monk. The $11 million was a supplemental.

Mr. Thomas. This $24 million does not include the wage board employees?

Mr. Gleason. That is correct.

Mr. Thomas. There are no wage board employees in here?

Mr. Gleason. No.

Mr. Thomas. Your wage board costs how much more?

Mr. Monk. $11 million more in 1964.

Mr. Ostertag. Why is not the wage board increase included?

Mr. Gleason. Because under the law we are not permitted to do that until next year.

Mr. Ostertag. The wage board rates are in now?

Mr. Gleason. Yes. That is why we are in for the supplemental.

Mr. Ostertag. That is to cover 1964?

Mr. Boland. They do not know what the wage board cost will be for 1965.

Mr. Gleason. No, because the surveys will be going on now and begin in fiscal year 1965.

Mr. Wise. Mr. Chairman, before the 1965 fiscal year is out we will have to request a supplemental appropriation for all wage board increases between last June and a year from next July, a 2-year period. That will probably run $10 million additional.

Mr. Ostertag. Have there been wage board adjustments since last year that are not included in this budget?

Mr. Wise. Only since last July 1.

Mr. Ostertag. Whatever the wage is today that which is real and applicable is included in here?

Mr. Wise. Yes; up to last June 30.

Mr. Ostertag. So you mean any subsequent wage board increases have not been provided for because you do not know what they will be?

Mr. Wise. That is right, and we have some 18 months to go before we know that.

Mr. THOMAS. And you are sure the first 6 months of 1965 were not included in that supplemental?

Mr. MONK. Positive.

Mr. THOMAS. Does this $24 million, then, contemplate any funds for wage board employees as far as inpatient care in concerned?

Mr. GLEASON. No, sir.

Mr. THOMAS. This item of $24 million, then, does not reflect the true inpatient care figure for 1965, does it? It is short from $8 million to $10 million on pay?

Mr. WISE. That is right.

Mr. THOMAS. So your increase for 1965 so far as inpatient care is concerned is purely salaries?

Mr. MONK. No, sir.

REASONS FOR INCREASES IN MEDICAL CARE COSTS

Dr. ENGLE. The chart on page 21–4 gives the increases in the medical care appropriations and it breaks out the increase related to salary increases.

Mr. THOMAS. Turn to page 21–4, gentlemen. This is a graphic chart showing the increases. Go ahead.

Dr. ENGLE. This is for the total medical care appropriation, Mr. Chairman, and it shows there will be an increase of $17,105,000 for salary increases.

Mr. THOMAS. And for changes in number and composition of beneficiary load, $2,895,000. What do you mean by that?

Mr. WISE. That includes requirements for the Washington, D.C., general medical replacement hospital, the restoration center at East Orange, N.J., and some increase in the Cleveland, Ohio, hospital.

NUMBER OF VA HOSPITAL BEDS

Mr. THOMAS. You still have a limitation of 125,000 beds. If you bring in operation 1,500 or 2,000 new beds, what becomes of the old beds?

Mr. WISE. There are less than 122,000 of these beds in existence today. About 3,000 of the 125,000 capacity are as yet unconstructed.

Mr. THOMAS. Do you mean by that you will add 1,500 or 2,000 beds in 1965 that you did not have in 1964?

Mr. WISE. Not in 1965, sir.

Mr. THOMAS. You are talking about the two hospitals you will activate?

Mr. WISE. We will add roughly 400 beds at the Washington, D.C., replacement hospital and about 40 more beds at Cleveland plus this 200-bed installation at the East Orange Restoration Center.

Mr. THOMAS. How many additional beds will that give you; 1965 against 1964?

Mr. WISE. That will give us a net G.M. & S. increase of——

Mr. THOMAS. You have already told us the net increase. We want to know haw many beds.

Mr. WISE. We will have a total of 120,249 beds in 1965 in all hospitals.

Mr. THOMAS. And in 1964?

Mr. WISE. 120,371. That is a decrease of 122, mainly because of construction at N.P. hospitals. At the same time we have these G.M. & S. beds coming in.

Mr. THOMAS. You have me in a whirl. First you had more and now you have 122 less. Make up your mind.

REQUEST FOR LETTERS ON QUALITY OF MEDICAL CARE

Doctor, after lunch will you be good enough to bring to the committee some of those letters from the medical colleges about the second-rate medicine that you have been dispensing for several years, and in addition to those letters you bring from the colleges, bring the amount of money they are getting in terms of research contracts and the amount of money they requested.

There are three things we want: The letters, and then we want the amount of money they were actually given, if any, for research contracts, and the amount of money they requested for research contracts.

Dr. MCNINCH. We do not give any research contracts to medical schools, sir.

Mr. OSTERTAG. They are affiliated with you just the same.

Mr. THOMAS. They get the money in the long run.

Mr. OSTERTAG. That is what the chairman wants; the affiliation.

Mr. MONK. We can give the amount the staff asked where they were affiliated for research and how much they got.

Mr. THOMAS. They have the professors conducting the research. You are right technically, Doctor.

Mr. OSTERTAG. Mr. Chairman, if I may ask along the line of the question you raised about the total number of beds, if I understand correctly, you will have 120,371 beds in veterans' hospitals?

Mr. WISE. Yes, sir.

Mr. OSTERTAG. This is, of course, aside from domiciliary and all other phases?

Mr. GLEASON. Yes, sir.

AVERAGE DAILY PATIENT LOAD

Mr. OSTERTAG. And your average patient load daily will be 110,318, so there will be a difference between your total bed capacity and your daily load of about 10,000?

Mr. WISE. Yes, sir. Our general medical hospitals will run about 91 percent occupancy, which is high. In psychiatric hospitals it is 95 to 96 percent occupancy.

Mr. OSTERTAG. That is your anticipated load?

Mr. WISE. Yes. Of course this is very seasonal. For example, while the annual average is 110,318, in the month of January we were up to 112,000.

NUMBER OF PATIENTS TREATED

Mr. OSTERTAG. And in connection with that, you anticipate treating or caring for 730,000 patients, which is an increase of 10,000 over the previous year?

Mr. WISE. Yes, sir.

Mr. OSTERTAG. On what basis do you arrive at your anticipated number of veterans that will require care? On what basis do you arrive at the increase of 10,000 you anticipate?

Dr. ENGLE. This is on the basis of our experience in recent years. I think we can start out by saying there has been a very steady increase in the number of veterans applying for hospitalization. There were 962,000 in 1963. In 1964, on the basis of our experience last year, it is expected to be 980,000. And next year we anticipate 1 million veterans will be applying for hospitalization. Despite the fact our patient load has remained relatively stable, we have been able to treat and admit more. In 1963 we admitted 22,000 more than the previous year and this year we expect to admit 10,000 more, and we think this trend will continue.

APPLICATIONS FOR HOSPITALIZATION

Mr. OSTERTAG. How many applied for hospitalization?

Dr. ENGLE. We expect 980,000 veterans to apply for hospitalization.

Mr. OSTERTAG. Of which you will care for 730,000?

Dr. ENGLE. We will admit 66 percent of them and end up treating 720,000.

Mr. OSTERTAG. In other words, there will be about 250,000 veterans that will apply for hospitalization that will not receive it?

Dr. ENGLE. That will not be considered medically in need.

Mr. OSTERTAG. Is that 250,000 figure made up of veterans who do not qualify for this care?

Dr. ENGLE. Do not qualify medically. In an analogous situation, if you go to a private physician for treatment he may not think hospitalization is necessary. These are veterans that have some complaint but are not ill enough to require hospital attention.

VETERAN'S ABILITY TO PAY FOR HOSPITALIZATION

Mr. GLEASON. Or cannot meet the financial test.

Mr. OSTERTAG. The means test?

Mr. GLEASON. Yes.

Mr. JONAS. Do you have any figures of the percentage of those that cannot qualify because of the financial test?

Mr. GLEASON. Yes, I think Mr. Rosen has that.

Mr. ROSEN. 6.7 percent during the first year of the program.

Mr. JONAS. Who were disqualified by reason of not signing the affidavit?

Mr. ROSEN. 6.7 percent or about 14,000 persons were found to have an ability to pay for hospital care in excess of the estimated cost. The organic law still says if they affirm their inability to pay we must admit them, but these men were counseled and 20 percent withdrew.

Dr. ENGLE. I have the figure on those who were counseled and withdrew and there were 3,000 during the first year.

Mr. BOLAND. You do not go beyond their statement?

Mr. GLEASON. Yes, we do.

Mr. MONK. Most of those not admitted were declared to be not medically in need.

Mr. THOMAS. The law says you cannot go behind their statements.

Mr. GLEASON. We have to admit them, but I still go behind it. If a man makes a financial statement——

Mr. THOMAS. He is not required to give a financial statement?

Mr. GLEASON. Yes; we require it.

Mr. THOMAS. You do not have that authority.

Mr. GLEASON. I still think the law gives the Administrator that authority.

Mr. THOMAS. The law is clear if he signs that statement you cannot go behind it and that is the end of it, period. It was put in for that purpose. We wanted to give them all free medicine if they asked for it.

Mr. GLEASON. We cannot keep them from receiving medical care but we do go behind it and we do recover from those who make a false affidavit.

Mr. FABLE. Mr. Chairman, there are circuit courts of appeal that are in agreement with you and circuit courts of appeal that are in agreement with the Administrator. The chairman will recall——

Mr. THOMAS. I remember you had some decisions on it and you had one favorable decision.

Mr. FABLE. It went both ways. You will recall you asked about one case, the *Borth* case, where we lost in the 10th circuit. After that we had another case, the *Alperstein* case, where we won in the fifth circuit. Since then we lost one in a district court in the seventh circuit.

There have been few cases where the facts were shocking. To illustrate that there are about 3,729 cases which were reviewed by the General Counsel under the program. Of those we referred 211 to the Department of Justice. Four of those were litigated and 68 were settled or compromised.

Mr. THOMAS. You mean for expenses?

Mr. FABLE. Yes, sir; usually with no penalty but frequently settlement for more than what the per diem would be.

Mr. THOMAS. Did any go to the jury or did you have any contested cases?

Mr. FABLE. Four were litigated and in one of these, which happened to be in a district court in the seventh circuit, we got an adverse decision.

Mr. THOMAS. By the jury or the court?

Mr. FABLE. By the court as a matter of law.

Mr. THOMAS. Did it go to the jury?

Mr. FABLE. I think it was decided as a matter of law without going to the jury.

Mr. THOMAS. What was the outcome of the others?

Mr. FABLE. I do not have the figures on those three.

Mr. THOMAS. I think the intent of Congress was clear. First it was decided to put a limitation on it and they came back with an amendment and it was clearly understood what it was. The intent was to give all these veterans free medical care. The veterans' organizations operate on that theory and I thought it was pretty clear. Eighty or eighty-five percent of your patients are not service-connected.

Mr. GLEASON. We believe in giving medical care to those that are in need, not to those that can pay for it.

Mr. THOMAS. I think you are right about that. I agree with that point of view, but I am talking about the status of the law.

RECOVERIES FOR COST OF HOSPITALIZATION

Mr. FABLE. In Arizona there was a case where a judgment was rendered for the Government in the amount of $22,208; and in Oregon a judgment was rendered for the Government in the amount of $12,710, in the *Mayberry* case. Both cases involved individuals who were in VA hospitals, and who made a statement of inability to pay, and under the law we had to accept them. They stayed in the hospital and died, and at the time they died it was apparent their estates were so great that by no stretch of the imagination could they have met the test of inability to pay. In one case the man left an estate worth nearly half a million dollars because of increase in land value.

Mr. THOMAS. Was the judgment ever satisfied?

Mr. FABLE. Yes. At least one has already been paid in cash.

RECOVERIES—TYPES OF CASES

Mr. OSTERTAG. It would be interesting to learn how many veterans receive hospitalization, and recoveries are made from those veterans; that is, the number of veterans from whom recoveries are made and the total amount annually.

Mr. FABLE. I can give you figures on that. We have recoveries in many different kinds of cases. We will have veterans taken to hospitals who have been injured in the course of their employment. They come under the workmen's compensation law, and there is a responsibility upon the employer or his insurer to pay us.

Another instance is: A veteran will be injured in an automobile accident, and he will have a cause of action against the person driving the car responsible for the accident; third-party cases. In cases like that, during fiscal year 1962 there were recoveries in the amount of $747,000.

Mr. THOMAS. Against the third party?

Mr. FABLE. Third-party and workmen's compensation cases.

Mr. OSTERTAG. Does that include recoveries against the veterans?

Mr. FABLE. No. Actions against veterans are extremely unusual situations, handled by the Department of Justice, because this is the type of case where the circuit courts of appeal are in complete disagreement.

Mr. JONAS. How do you collect in third-party cases?

Mr. FABLE. Congress passed a law, Public Law 87-693, which formalized the proceeding. We can take an assignment, and sue on that basis. For the first half of fiscal year 1964, the total of all recoveries has been $437,729.

Mr. OSTERTAG. Then it is not clear as to how many veterans you have brought an action against, and how much you have recovered. I am talking about the veteran individually.

Mr. FABLE. I have the figures for the number of cases, but not the dollar figure. Since the program commenced, 68 cases were settled or compromised; 4 were litigated; and 53 cases are still in the Department of Justice. They have returned, without action, 86 cases.

Mr. OSTERTAG. All these funds that result from recoveries revert to the Treasury?

Mr. FABLE. There are some cases where I believe recoveries would go into this appropriation—the in-patient care appropriation—but I am not in a position to give the split. Do you know, Mr. Monk?

Mr. MONK. In the supplemental, we said we got an additional $521,000 in reimbursements, and part of this would be in the reimbursement figure. But, where there was a judgment, we did not get that money.

Mr. THOMAS. If it is a voluntary settlement you get it?

Mr. MONK. Yes.

Mr. THOMAS. But not where it is a judgment?

Mr. MONK. That is right.

Mr. OSTERTAG. You collect from veterans who are willing to pay, do you not?

Mr. GLEASON. No. They should go to a private hospital.

Mr. OSTERTAG. In case of emergency?

Mr. GLEASON. If it is an automobile accident, we take care of them right away, veteran or nonveteran, it makes no difference. But the medical care we give them, either Blue Cross or Blue Shield, or a private insurance company that carries their hospitalization, pay us direct for the medical care we have given them. This is part of the recovery we make.

Mr. THOMAS. Gentleman, let us get lunch and come back at quarter to 1.

AFTERNOON SESSION

Mr. THOMAS. Gentlemen, will the committee please come to order.

LETTERS ON QUALITY OF MEDICAL CARE

Doctor, were you able to have sent over to you some of those letters during the luncheon hour? Did we give you enough time?

Dr. MCNINCH. May I talk off the record about the letters?

Mr. THOMAS. On or off, whatever way you like.

Dr. MCNINCH. Off the record.

(Discussion off the record.)

Mr. THOMAS. On the record.

That ought to be on the record.

Dr. MCNINCH. Personal letters expressing personal opinions. I do not feel they should be made a matter of public record.

Mr. THOMAS. They were written before you were Chief Medical Officer or after?

Dr. MCNINCH. They are not even addressed to me.

Mr. OSTERTAG. How could they be personal?

Dr. MCNINCH. Personal to someone else in the office. May I go off the record?

(Discussion off the record.)

Dr. MCNINCH. May I go on?

Mr. THOMAS. Sure.

Dr. MCNINCH. My second reason is that it seems to me unfair to introduce into the record opinions that are critical of the Veterans' Administration and the Budget——

Mr. THOMAS. You are the one who introduced them. We did not introduce them for you. You did it voluntarily.

Dr. MCNINCH. Without a search for other opinions which might be contrary. I felt I received this type of information and I felt it was

my duty, sir, to report this to the Administrator and to this committee and to point out I neither accepted this as being true or not true. I did feel that in view of these statements, I had an obligation to determine whether or not——

Mr. THOMAS. This is a very unsatisfactory way to handle it, Doctor. You raised it on your own free will. We did not raise it. You raised the question and we asked you to bring the letters where we could share the reading with you and let us come to our own conclusions as to the merits of the letters. If you do not want to, that is all right.

Mr. OSTERTAG. May I add, Mr. Chairman, something along the thought you have expressed.

Doctor, you have placed great emphasis and weight on this. As a matter of fact, you have seen fit to include it in your first and leading statement with regard to your responsibilities and the picture that you find. It would appear you share some of this concern by virtue of these communications you have received, and yet it is very unclear as to how much weight you have given to this.

Secondly, how authentic are they and what is the real basis for this?

Dr. MCNINCH. Mr. Ostertag, the quality of medical care, I think, obviously is a matter of opinion for experts in this field. It is an area in which opinions may differ. I am concerned when anyone criticizes the Medical Service of the Veterans' Administration since, obviously, I am responsible for it.

Mr. THOMAS. Anything further?

Mr. JONAS. No questions.

SUMMARY OF MEDICAL PROGRAMS

Mr. THOMAS. Gentlemen, let us take a look now at the front sheet here in volume II for the Medical Department.

Let us put pages 18–1, 18–2, 18–3, 18–4, and 18–5 in the record.

(The pages follow:)

DEPARTMENT OF MEDICINE AND SURGERY

Summary of appropriations

Appropriation title	Fiscal year 1963, actual	Fiscal year 1964, estimated	Fiscal year 1965, estimated	Increase (+) or decrease (−) 1965 over 1964
Medical administration and miscellaneous operating expenses appropriation or estimate	$13,981,950	$14,800,000	$14,915,000	+$115,000
Medical and prosthetic research appropriation or estimate	30,500,000	33,742,000	36,987,000	+3,245,000
(Medical research)	(29,500,000)	(32,572,000)	(35,712,000)	(+3,140,000)
(Prosthetic research)	(1,000,000)	(1,170,000)	(1,275,000)	(+105,000)
Medical care appropriation or estimate	1,048,172,300	1,091,765,000	1,115,935,000	+24,170,000
Department of Medicine and Surgery appropriations or estimates	1,092,654,250	1,140,307,000	1,167,837,000	+27,530,000

NOTE.—The above table reflects comparative year appropriation amounts for Veterans' Administration medical programs. Effective with the fiscal year 1963, financing for "Agency medical and prosthetic research activities" was consolidated under a "no year" appropriation head titled "Medical and Prosthetic Research." Appropriations titled "Medical Administration and Miscellaneous Operating Expenses" and "Medical Care" are annual (1 year) appropriations. This estimate contemplates no change in the fiscal year 1963 medical program appropriation structure for either of the fiscal years 1964 or 1965.

The fiscal year 1964 amount of $1,091,765,000 for the "Medical care" appropriation shown on the preceding page includes $10,579,000 estimated supplemental appropriation requirement to pay current year costs of presently unfunded Public Law 83–763 wage board increases approved during the period July 1, 1962 through June 30, 1964. Consistent with Bureau of the Budget policy, no amount is included in the fiscal year 1965 "Medical care" appropriation sum of $1,115,935,000 for the costs of wage rate increases that will accrue between July 1, 1963 and June 30, 1965. Supplemental appropriation requirements therefor will be transmitted separately later in the 1965 fiscal year.

Of the $27,530,000 increase requested for agency medical programs in fiscal year 1965, $17,992,000 or 65.4 percent will be required for continuance of operations at fiscal year 1964 level. The $17,992,000 will be required to pay the higher salary rates resulting from Public Law 87–793 and within-grade step increases. After considering the effect of the $4,084,000 decrease for the 1 less workday and calendar day occurring in fiscal year 1965, $9,538,000 or only 34.6 percent of the total increase relates to workload or other program changes including the planned activiation of new medical facilities. An analysis of the monetary changes required for fiscal year 1965 appears in the following table:

	Medical, administration, and miscellaneous operating expenses	Medical and prosthetic research	Medical care	Total
1 less workday and calendar day	−$43,000	−$105,000	−$3,936,000	−$4,084,000
Within-grade step increases	+42,000	+122,000	+5,344,000	+5,508,000
Public Law 87–793 salary rate increases	+296,000	+427,000	+11,761,000	+12,484,000
Workload and other program changes	−180,000	+2,801,000	+11,001,000	+13,622,000
Total	+115,000	+3,245,000	+24,170,000	+27,530,000

APPROPRIATION ESTIMATE, FISCAL YEAR 1965

The Veterans' Admiinstration is responsible for providing medical care and treatment to eligible veterans as authorized by law (title 38, United States Code). Medical program financial requirements for fiscal year 1965 are budgeted under three operating appropriations as follows:

1. "Medical administration and miscellaneous operating expenses" provides for the administration by central office and area medical offices of all medical programs of the Veterans' Administration; a program of education and training to support the medical care programs; and technical staff and services required for the agency construction program.

2. "Medical and prosthetic research" provides for a program of medical research and a program of prosthetic testing and development.

3. "Medical care" provides for maintenance and operation of Veterans' Administration hospitals, domiciliaries, restoration centers, and outpatient clinics; care of beneficiaries in contract hospital facilities not under jurisdiction of the Veterans' Administration; and aid to State or territorial homes for support of veterans eligible for care by the Veterans' Administration.

Program objectives

In accordance with the intent of the Congress as expressed by the enactment of medical benefit legislation for veterans, the following are the operating objectives upon which this budget is predicated:

1. Medical care shall be rendered to all eligible veterans who request and require such care, either in Veterans' Administration facilities or by contractual arrangements, when necessary.

2. The quality of medical care provided by the Veterans' Administration shall be maintained at a level comparable with the best civilian institutions treating similar types of illnesses.

3. Current and proposed operating standards shall be studied and reduction made of the unit cost of medical care wherever possible by amending or eliminating standards and practices in keeping with sound management principles.

Program problems

The rising costs of medical care, due primarily to advances in knowledge and improved and more complex treatment procedures, pose many serious problems.

Achievement of the objectives previously stated is made possible largely through the close relationship maintained with the medical schools with which many of our hospitals are affiliated, together with the active programs of research and education conducted by the agency. This combination has produced an atmosphere which, to be sustained demands that we keep abreast of the progress being made in the vast and complex field of medical care.

Failure to keep pace will jeopardize both the valuable affiliation ties with the medical schools, who are the forefront of the advance, and our ability to recruit and retain the necessary caliber of physician that will assure our patients receive the best possible care and treatment.

The amounts requested for our medical programs in fiscal year 1965 represent minimal levels needed to continue our relative position in the field of medical care. Within these amounts, we will continue to improve and expand the care provided our psychiatric patients, make modest progress in expanding such new treatment procedures as open-heart surgery and renal dialysis facilities in general hospitals and improve the maintenance and upkeep of all medical facilities.

These needs are developed in detail in the ensuing pages.

Program highlights

(*a*) *Patients admitted, treated, and discharged.*—During fiscal year 1963, there were 585,297 admissions and 586,452 discharges of patients in VA hospitals with a total of 712,937 patients treated during this period.

The number of patients treated was increased by 24,430 over the prior year by expanding the prebed care program (PBC) and the "completion of bed occupancy care" program (CBOC). These programs make beds available for more intensive treatment of hospital patients. The PBC program permits the patient who requires surgical or medical treatment of a nonemergent condition to go home after undergoing preadmission workup (blood tests, urine tests, X-rays, etc.), to wait there until the appropriate surgical or medical treatment can be determined from analysis of the PBC tests, and to return to the hospital on a scheduled date (within 14 days of the initial visit) for treatment of his condition. The CBOC program results in earlier release of the patient by providing necessary followup care on an outpatient basis.

More than twice as many patients were admitted through the PBC program during fiscal year 1963 (22,755) than in the previous year. The PBC program accounted for 3.9 percent of all VA hospital admissions, and surgical cases accounted for two out of three of the PBC admissions.

The CBOC program speeded the release of 225,459 patients, enabling them to return to their homes at an earlier date. While the exact number of bed days made available by this program for admission of other patients cannot be determined, even 1 or 2 days of hospitalization saved per patient has profound effect on the agency's bed availability.

An increase in patients discharged with a resultant improvement in turnover rate was realized despite the continued rise in the proportion of VA patients requiring treatment of long-term disabilities and illnesses associated with an aging veteran population. The average monthly turnover rate (percentage of ADPL discharged) for all types of patients in VA hospitals was 44.5 percent in fiscal year 1963 compared to 42.3 percent in fiscal year 1962, thus continuing the upward trend experienced in recent years.

The increase in turnover resulted in part from the PBC and CBOC programs, but improved staffing and the changing diagnostic composition of the patient load also contributed to this end. A decrease in the number of tuberculous patients in VA hospitals allowed the VA hospital system to accommodate more medical, surgical, and neurological patients in fiscal year 1963. The latter types of patients have relatively shorter lengths of stay than tuberculous patients.

The following table reflects the trends of increased service resulting from all these factors.

	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Change, fiscal years 1963-1962	Change, fiscal years 1963-1962
					Percent
Patients admitted to VA hospitals	537,022	561,808	585,297	+23,489	+4.2
Patients treated in VA hospitals	664,400	688,507	712,937	+24,430	+3.5
Patients discharged from VA hospitals	540,068	563,417	586,452	+23,035	+4.1

(*b*) *Administrative research and development program.*—The mission of this program is to promote better patient care through a continuous program of administrative research necessary for sustained effective operation of hospitals, domiciliaries, and clinics.

Mr. THOMAS. These are the summary sheets and the first one shows "Medical administration and miscellaneous operating expenses," $13,981,050 in 1963 and then it goes up to $14.8 million for 1964; now it goes up $115,000 to $14,915,000 in 1965. Then we have "Medical and prosthetic research," which is combined apparently. This goes up $3,245,000 over last year. Last year it was a little better than $3 million over the preceding year.

"Medical research" is up exactly $3,140,000.

INCREASE IN MEDICAL CARE

Your big item here is "Medical care." We figured out that in the last 5 years it has gone up about 40 percent.

With a limitation of 125,000 beds in 5 years it has gone up 30 percent and every year, with the same number of beds.

For fiscal year 1963 it was $1,048,172,300 and then it jumped about another $50 million to $1,091,765,000 in 1964. This year it goes up $24,170,000, according to the $1,115,935,000 figure. The justification for that is that you are going to treat 10,000 more patients.

NUMBER OF PATIENTS TREATED

I believe your table under "Medical care" shows 10,000 more patients treated. The patients treated in Veterans' Administration hospitals goes up here as shown on page 18–5, 24,400. In the table under "Medical care," it shows 24,000 but you use the figure of 10,000.

Mr. MONK. Mr. Chairman, in the table on page 18–5, that change is for 1962 to 1963. We are talking about 10,000 from 1964 to 1965.

Mr. THOMAS. That is what I am talking about, as shown on page 18–3 and 18–5.

Mr. GLEASON. The change is 1963 over 1962.

Mr. THOMAS. The patients treated in hospitals, yes. That is not alone for that one fiscal year 1965?

Mr. GLEASON. We did not have 1964 and 1965 listed here.

Mr. THOMAS. From 1962 to 1963? The correct figure is 10,800 more patients?

Mr. GLEASON. Yes, sir.

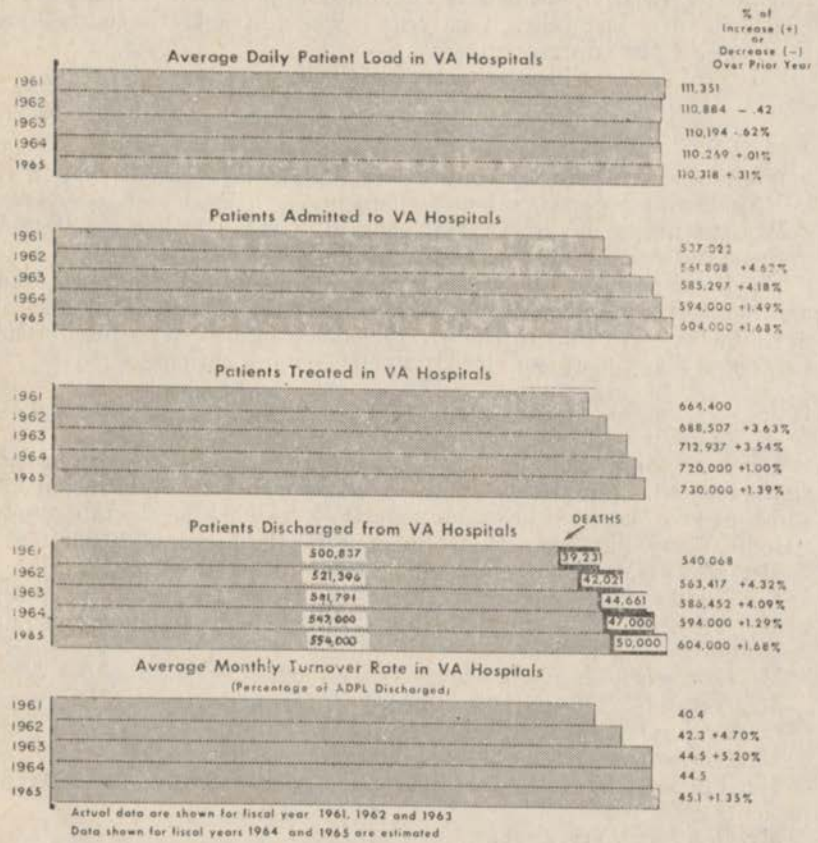
Mr. MONK. If you will go to page 21–26, Mr. Chairman, there is a good chart on that page showing patients treated. It is under the tab "Patient care," and if you will look at the third bar down, the middle group of bars there, you will see that.

Mr. THOMAS. Let us put that table in the record.

(The page follows:)

MEDICAL CARE

INCREASED NUMBERS OF VETERANS ADMITTED, TREATED, AND DISCHARGED MORE THAN COMPENSATE FOR DECREASED ADPL IN VA HOSPITALS



Mr. THOMAS. This can be printed but I do want to ad lib an important part of it.

You show from 1961 to 1964 patients treated in VA hospitals go from 664,400 to 730,000.

When did you put your new plant into effect?

Dr. ENGLE. Public Law 86–339; that was put into effect in 1960.

Mr. THOMAS. What is that public law?

Dr. ENGLE. This public law provides for pre- and post-hospital care for nonservice connected veterans.

Mr. THOMAS. Is that the basis for your increase in bed occupancy, your advance work done in clinics and so forth, looking toward admissions, preadmission work, as we call it? What do you call it?

Dr. ENGLE. It is called preadmission work and therapy to follow up after the hospitalization. We think it accounts in important measure for the increases in the number of patients treated.

Mr. THOMAS. In 1962, this jumped from the previous total of 664,400 to 688,507 and that is 3.63-percent increase.

In 1963 it goes from 712,937, which is a 3.54-percent increase to 720,000 in 1964, and that is a 1-percent increase.

In 1965 it goes to 730,000 and that is a 1.39-percent increase.

In actual numbers, the 10,000 is a guess, is it?

Mr. MONK. Yes, sir.

INCREASE IN PATIENTS TREATED IN 1954

Mr. THOMAS. What does the picture for the first 6 months of fiscal year 1964 look like?

Mr. MONK. We are up about 8,000 in the first 6 months of 1964.

Mr. THOMAS. Eight thousand?

Mr. MONK. Yes, sir; in the first 6 months of 1964. We are not in 1965 yet.

Mr. THOMAS. You are only supposed to go to 7,000 in 12 months. Are you exceeding your guess?

Mr. MONK. We will exceed the guess.

Mr. THOMAS. By what?

Mr. WISE. Probably 12,000 a year.

Mr. THOMAS. At the end of the year, it will be 12,000 rather than 7,000?

Mr. WISE. Yes, sir.

Mr. THOMAS. That is good, is it?

Mr. OSTERTAG. Will the chairman yield there?

Mr. THOMAS. Yes.

RELATION OF PATIENTS TREATED TO ADMISSIONS

Mr. OSTERTAG. I notice you have two charts, one dealing with patients admitted and one with patients treated. There is an average of about 10,000 patients admitted, not treated, and what is the answer to that?

Mr. MONK. You have patients in the hospital that are carried over, that are not in the admission figures. Your patients treated should exceed the patients admitted and they do because you have patients

who remain in the hospital from one year to the next. They are not counted as admissions but they are counted as treated.

Mr. OSTERTAG. So the overall picture is about 10,000 carried over?

Dr. MCNINCH. It would be about 110,000 carried over. The number in the hospitals at the beginning day of the year.

Mr. OSTERTAG. I did not mean carried over as of the beginning of the year, but I mean more or less permanently carried as patients?

Dr. MCNINCH. Something less than 10,000, perhaps 8,000.

INCREASED COSTS OF MEDICAL CARE

Mr. THOMAS. What was the increase of your 1964 appropriation over 1963? Can you give it to us on the basis of more patients treated? You used the figure of 10,000 but now you estimate 8,000. What was the increase in dollars in the appropriation of 1964 over 1963?

Mr. GLEASON. $43 million.

Mr. THOMAS. Did you have a supplemental?

Mr. SHYTLE. Yes, sir.

Mr. THOMAS. You had a supplemental?

Mr. WISE. That would include the $10.4 million.

Mr. THOMAS. $43 million, including the supplemental. Did you have any pay act in 1964?

Mr. WISE. Yes, sir.

Mr. THOMAS. What part of the $43 million was pay act?

Mr. WISE. $22 million.

Mr. THOMAS. You are going to increase again this year the number of patients treated by 10,000. How much increase are you seeking for that?

Mr. WISE. For all purposes, $24,170,000.

Mr. THOMAS. Is that the total increase?

Mr. WISE. Yes, it is $2,895,000 which relates to these workload changes.

There are many items in there. For example, the activation of these new facilities including the expense of initial equipment; things of that nature. It is quite hard to put a price tag on individual patients treated. Such costs are within that portion of the overall increase.

As the doctor mentioned this morning, only 65 percent of the total increase applies to the pay raise or within-grade Ramspeck promotions which I am unable, in my own mind, to relate to patients treated. It sure costs, however.

Mr. THOMAS. That is a good honest statement.

PAY ACT COSTS

At least 50 percent of your increase for this year is pay act costs and I think it is a fair statement to say that in 1964, it will be 50 percent of that. Your increase in pay for 1964 was what, 5 percent?

Mr. WISE. About 5.9 percent.

Mr. THOMAS. Percentagewise of your payroll?

Mr. WISE. Nine percent.

Mr. THOMAS. What is it this year?

Mr. WISE. About 2.9 percent.

Mr. THOMAS. So, you had a greater increase percentagewise in pay for 1964 than in 1965?

Mr. WISE. Yes, sir.

Mr. THOMAS. Your other expenses are going up a little bit higher.

Mr. WISE. We could not do much for our doctors' pay on the second phase.

Mr. THOMAS. Let us look a little bit more into the item here and then we will have questions.

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	9,633	10,523	10,854
	Positions other than permanent	185	242	242
	Other personnel compensation	12	91	52
	Total personnel compensation	9,830	10,856	11,148
12	Personnel benefits	714	781	804
21	Travel and transportation of persons	1,477	1,606	1,654
22	Transportation of things	69	83	59
23	Rent, communications, and utilities	242	210	200
24	Printing and reproduction	213	210	210
25	Other services	705	776	690
26	Supplies and materials	300	155	130
31	Equipment	85	55	20
42	Insurance claims and indemnities	12		
	Total costs	13,647	14,733	14,915
	Change in selected resources	7	−55	
	Total obligations	13,654	14,677	14,915

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	1,078	1,073	1,073
Full-time equivalent of other positions	12	15	15
Average number of all employees	1,025	1,056	1,058
Employees in permanent positions, end of year	1,019	1,036	1,042
Employees in other positions, end of year	599	594	608
Average GS grade	9.6	9.6	9.6
Average GS salary	$8,945	$9,536	$9,627
Average salary, grades established by 38 U.S.C.	$17,044	$17,399	$17,486

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs, funded:			
1. Medical, hospital, and domiciliary administration	10,222	11,242	11,367
2. Administration of construction program	1,662	1,850	1,903
3. Medical education and training	1,678	1,585	1,625
Total operating costs, funded	13,562	14,678	14,895
Capital outlay:			
1. Medical, hospital, and domiciliary administration	40	50	15
2. Administration of construction program	24	5	5
3. Medical education and training	21	----------	----------
Total capital outlay	85	55	20
Total program costs, funded	13,647	14,733	14,915
Change in selected resources [1]	7	−55	----------
Total obligations	13,654	14,677	14,915
Financing:			
Comparative transfers to or from other accounts	148	123	----------
Unobligated balance brought forward	−16	----------	----------
Unobligated balance lapsing	196	----------	----------
New obligational authority (appropriation)	13,982	14,800	14,915

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders; 1962, $180,000 (1963 adjustments −$43,000); 1963, $144,000; 1964 $89,000; 1965, $89,000.

Mr. THOMAS. Let us take a look at medical administration. Let us put this big sheet on page 19–1 in the record.

(The page follows:)

Medical Administration and Miscellaneous Operating Expenses

Cost summary by object

	Fiscal year 1963 actual	Fiscal year 1964 estimated	Less workday and calendar day	Public Law 87-793 and within grade increases	Program changes	Fiscal year 1965 estimated	Increase (+) or decrease (−) 1965 over 1964
Average employment:							
Medical administration	855	882				882	
Assistant administrator for construction	162	165			+2	167	+2
Education and training							
Total	1,017	1,047			+2	1,049	+2
Consultants	(7)	(8)				(8)	
Average payroll cost	$10,369	$11,115	−$41	+$322	−$2	$11,394	+$279
Costs by activity:							
Medical administration	10,261,943	11,292,470	−37,470	+257,000	−130,000	11,382,000	+89,530
Assistant administrator for construction	1,686,073	1,855,282	−6,000	+81,000	−22,282	1,908,000	+52,718
Education and training	1,699,050	1,585,000			+40,000	1,625,000	+40,000
Total	13,647,066	14,732,752	−43,470	+338,000	−112,282	14,915,000	+182,248
Costs by object:							
11 Personnel compensation	9,830,398	10,856,470	−40,470	+314,000	+18,000	11,148,000	+291,530
consultants	(167,206)	(215,000)				(215,000)	
12 Personnel benefits	714,492	781,000	−3,000	+24,000	+2,000	804,000	+23,000
21 Travel and transportation of persons	1,476,817	1,606,000			+48,000	1,654,000	+48,000
22 Transportation of things	69,407	83,000			−24,000	59,000	−24,000
23 Rent, communications and utilities	241,892	210,000			−10,000	200,000	−10,000
24 Printing and reproduction	212,646	210,000				210,000	
25 Other services	704,936	776,282			−86,282	690,000	−86,282
26 Supplies and materials	299,571	155,000			−25,000	130,000	−25,000
31 Equipment	85,333	55,000			−35,000	20,000	−35,000
42 Insurance claims and indemnities	11,574						
Total gross costs	13,647,066	14,732,752	−43,470	+338,000	−112,282	14,915,000	+182,248
Cost adjusted for other years	+7,203	−55,282			+55,282		+55,282
Total obligations	13,654,269	14,677,470	−43,470	+338,000	−57,000	14,915,000	+237,530
Comparative transfer from other account (−)	−207,437	−236,470	+470		+236,000		+236,470
Comparative transfer to other account	339,000	359,000			−359,000		−359,000
Unobligated balance no longer available	196,118						
Total appropriation or estimate	13,981,950	14,800,000	−43,000	+338,000	−180,000	14,915,000	+115,000

Mr. THOMAS. This table has the cost by activity and payroll costs as well as everything else. It shows you had 855 employees in 1963, 882 in 1964, and it remains the same for 1965. Then you have a plus two out here and I do not know how you get it.

Mr. GLEASON. That is for construction, sir.

Mr. THOMAS. Under "Medical administration, construction," you have 162 for 1963 and 165 for fiscal year 1964.

What is "Education and training"?

Mr. WISE. There is no employment in that program and the increase is $40,000 for 1965.

USE OF MEDICAL CONSULTANTS

Mr. THOMAS. Where do all of these consultants come from?

Mr. WISE. They are paid under the "Medical care" appropriation and by the hospitals that use them.

Mr. THOMAS. Where do they come from? Are these the gentlemen who are criticizing the Veterans' Administration medicine? Do you have that many of these professors? Is that where they come from?

Dr. MCNINCH. These consultants are members of the Special Medical Advisory Group.

Mr. THOMAS. Where do you get them? That is the question.

Dr. MCNINCH. I would have to get for the record what particular universities they were from.

Mr. THOMAS. Doctor, where are the consultants from? Where do you draw them from?

Mr. WISE. We utilize consultants in all operations, and the ones in this particular program are members of the special medical advisory group who advise the Administrator and the Chief Medical Director of the Veterans' Administration.

The predominant numbers are consultants to the area medical offices.

Mr. THOMAS. If you have 1,049 here I am afraid to look at the number when you get to patient care. Where do they come from?

Mr. WISE. There are only eight consultants here.

Mr. THOMAS. I am sorry. What about your consultants in inpatient care?

Mr. WISE. 1,097 consultants for this year. That is shown on page 21-22, the first line.

Mr. THOMAS. At as cost of what? Where do you draw these gentlemen from?

Mr. WISE. By and large, these are the consultant staffs from the medical schools, or from the community at locations where we are not affiliated with the medical schools.

Mr. THOMAS. What number are from medical schools where your hospitals are more or less adjacent to the medical school or college?

HOSPITALS AFFILIATED WITH MEDICAL SCHOOLS

Dr. ENGLE. About one-half of the hospitals, or 86, are affiliated with medical schools. Most of them are close to Veterans' Administration hospitals and some of them some miles away.

NUMBER OF INDIVIDUAL CONSULTANTS

Mr. THOMAS. Would it be safe to assume that 80 or 85 percent of your consultants are on the teaching staff of a medical college?

Dr. ENGLE. Certainly a high percentage—maybe 75 percent would be closer to it. This total of 1,000 is on full-time equivalent but, actually, about 10,000 different individuals are involved. There are about 6,000 consultants, with 4,000 participating in the program on an attending basis.

This would be in the neighborhood of 10,000 different physicians who participate in the program.

Mr. THOMAS. What is this figure of 1,000?

Dr. ENGLE. This is full-time equivalent, sir.

Mr. THOMAS. Full time?

Dr. ENGLE. Equivalent.

Mr. THOMAS. What is the accurate figure on your consultants, even if they are not full time?

Dr. ENGLE. Ten thousand different individuals; yes, sir.

COST OF MEDICAL CONSULTANTS

Mr. THOMAS. What is the fee of your consultants?

Dr. ENGLE. The fees are $50 for consultants and $25 for attendings. This has been exactly the same since 1946.

Mr. THOMAS. You have 10,000 individuals?

Dr. ENGLE. Yes, sir.

Mr. THOMAS. Of course, you do not know how many visits during the year each one of the 10,000 may make?

Dr. ENGLE. No, sir.

Mr. WISE. It will vary.

Mr. THOMAS. What is your total outlay for consultants?

Mr. GLEASON. $10,692,000.

Mr. THOMAS. Is that based upon 1,000 consultants?

Mr. WISE. This would be about 240,000 visits; roughly, about a quarter of a million visits each year.

Mr. THOMAS. Your $10,692,000 is for your consultants, as shown on this page, but you say you have more than shown on page 21–11?

Mr. MONK. This is full-time equivalent. If a man works 1 day, that is counted as one-fifth of a week's work, or $\frac{1}{220}$ of a year.

You add up all of the visits, and convert them to what would be full-time equivalent.

Mr. OSTERTAG. In other words, your 10,000 amounts to 1,100 full time?

Mr. GLEASON. That is about right.

Mr. MONK. To put it another way, on an average they work about $\frac{1}{10}$ time for us.

Mr. THOMAS. That is a lot of consultants, and I think it is well to have them, since, for one thing, they bring in new ideas. If you have that many consultants, you ought not to have too bad medicine in the Veterans' Administration. You have a lot of new ideas, and fresh blood from every section of the country. I do not guess a man being a consultant prevents him from criticizing, does it?

Dr. McNinch. I would not think so, if he felt the criticism was justified.

Mr. Jonas. May I ask a question there?

Mr. Thomas. Sure.

REASONS FOR USING CONSULTANTS

Mr. Jonas. What is the usual reason for bringing in a consultant—to get a second opinion, or an outside opinion? Does a doctor in X hospital examine a patient with a serious disorder, and feel the need of a second outside opinion, beyond the capacity of the staff? What is the usual reason for this?

Dr. McNinch. Our hospitals are manned by residents who are young doctors in training, and members of the full-time staff. Consultants' participation involves this program of training, and in the treatment of patients.

The activities of the different consultants vary a great deal. Some consultants actually performed surgery when they are in a specialty which is not present in our hospital. The patient may need a neurosurgeon at the hospital and, if it has no neurosurgeon, in this case the consultant does the surgical operation.

Mr. Jonas. You will not pay him the $50?

Dr. McNinch. We would pay him the $50 a day and he might see that patient five, six, or seven times. Usually he will see him along with other patients, but in this particular type of situation with the consultant we certainly are not paying him the fee for a competent neurosurgeon would be on a fee basis——

Mr. Thomas. Mr. Evins, did you have some questions?

LEVEL OF MEDICAL RESEARCH

Mr. Evins. I have one general question.

What has been the highest level of expenditure in the Veterans' Administration annually on research?

Mr. Gleason. This last year, Mr. Evins——

Mr. Evins. How much have you expended last year and was that the highest level?

Mr. Gleason. That was in the present fiscal year, 1964, and it is $33,742,000.

Mr. Evins. That has always been a question of some controversy in your budget and we never seem to get the right level. Some say you should have more and more research and others say you should not. Others say you have been researching for years. We want you to have what is required, but $30 million would be about the level of research the Veterans' Administration should possibly carry on?

Mr. Gleason. No, sir.

Mr. Evins. Are we going to continue to climb?

Mr. Gleason. I believe it is our program to get up to around $46 to $47 million before we reach a plateau, Mr. Evins, and this is in step progressions. If there are $45 million in research, we could not use it right now because the doctors tell us there is a staffing problem. It would be a problem to get the right people in the right field of

research we are interested in and this would be most difficult. It takes a lot of planning.

Mr. EVINS. Congress has been concerned about research costs mounting in all areas and has for several years been concerned about this and has set up a select committee to study research costs in all Federal activities. They want to have some idea about what is the right level for the Veterans' Administration. For several years, you have asked for more money for research. You think you want to reach a level of about $45 million?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Mr. Jonas?

RESEARCH VERSUS PRACTICE BY PHYSICIANS

Mr. JONAS. Thank you, Mr. Chairman.

I want to ask the Chief Medical Director one question.

Would you comment on the criticism or the comment heard occasionally that too many of our medical doctors want to engage in research and this contributes to the shortage of people who want to practice medicine? Is there any truth in that?

Dr. MCNINCH. Certainly there are varying opinions on this subject. I do not believe this is true in the Veterans' Administration by any means. Our research budget is something less than 4 percent of our medical care budget. In many organizations it is as high as 10 percent and the percent of the budget that goes into the research represents some indication of the percent of personal effort of the people involved.

Mr. JONAS. Are there any statistics available which you could put in the record on the percentage of medical doctors prepared to practice medicine who have given up the practice and are exclusively engaged in research in relationship to the total number?

Dr. MCNINCH. Within the Veterans' Administration?

Mr. JONAS. The total.

Dr. MCNINCH. I certainly can try. I am not sure that that information is available. What one sees more frequently than not is an individual participating in three things; that is, he is taking care of patients, he is engaing in some way or another, either individually or with a team, in a research project, and he is also teaching younger doctors.

This is the environment one finds in the medical schools. I think this is the reason why the highest level of medical practice is in university hospitals.

Mr. JONAS. That is all.

LEVEL OF MEDICAL RESEARCH IN VA

Mr. OSTERTAG. May I make this statement: While I am sure we are all in complete accord with the objective and the purpose and the need for medical research in the Veterans' Administration, it is a very desirable and very important program, but the program is not only essential to the health and welfare of the veteran but people as a whole. As I recall, when this program came into being one of the basic reasons

for the increases in the budget each year was the one-shot cost of equipment, laboratories, and things of that kind.

It was said that it would level off substantially once the program was substantially established.

However, the picture continues to be one of increasing costs, expansion, and the Administrator now tells us we will not reach the peak for several years when we reach the $45 or $50 million figure.

I just offer that as an observation. I am not quarreling about the need, the purposes, and desirability of the medical research program.

Mr. GLEASON. I understand, sir, that if you recall 3 years ago, Dr. Middleton went into this at quite some length and pointed out to you gentlemen how this would be in step increases until we reached a plateau of around $45 million to $46 million.

Mr. OSTERTAG. My point, Mr. Administrator, is that in the initial development of the program it was recognized there were certain basic costs that were essential but would not be required each and every year to follow. I referred to the laboratories, the equipment, and all of that.

Mr. GLEASON. Once this plateau is reached, this is a correct statement, Mr. Ostertag.

Dr. MCNINCH. Mr. Ostertag, I think in most agencies in and out of government, a rule of thumb is that personal salaries normally cost about 65 percent of the research program.

Supplies, equipment, and instrumentation which go on because new instruments are developed these days and are very expensive instruments, would be about 35 percent of the program.

I am not sure we are really so far from this, although it is still a growing program and things such as construction certainly are one-time costs. We have not completed this program.

Mr. OSTERTAG. I repeat that I, for one, and I am sure the Congress and the people as a whole applaud this program, believe it is vital and essential and very productive. However, we are talking in terms of levels and we are also talking in terms of the original picture and what it seems to be today.

Mr. GLEASON. For example, Mr. Ostertag, research has done such a great deal for us. I think it has saved us so much money in the Veterans' Administration. Just in one particular field, that has been impressed on me. That is in chemotherapy where we developed this for tuberculosis. Because of this one thing alone we have saved more money than all the money we have spent in research to date. In 14 of our tuberculosis hospitals, we have been able to convert them to general medical use rather than building 14 new ones.

Mr. OSTERTAG. Was that entirely developed by virtue of the Veterans' Administration?

Mr. GLEASON. By the Veterans' Administration; yes, sir. It has additional benefits which you mentioned just a little while ago that, not just the veterans gaining from this but the entire population of the United States gaining from this.

Mr. THOMAS. What is the exact meaning of the term chemotherapy?

Mr. GLEASON. I will have to ask one of the physicians here to explain that.

Dr. McNinch. Chemotherapy is a term developed about 1939 when the sulfa drugs were first introduced. I am not sure that we should have waited until that length of time for them to be introduced because obviously quinine is chemotherapy, and epsom salts are a form of chemotherapy.

This is a therapy with chemical agents as opposed to biological agents, such as antitoxin, and some of the other biological products.

MEDICAL RESEARCH GRANTS

Mr. Jonas. When you gave that figure $46 to $47 million as the top level in answer to a question by Mr. Evins, this did not include grants you received and administered in addition to appropriated funds, did it?

Mr. Gleason. No, sir.

Mr. Ostertag. Actually, the total would be some $5 to $10 million more than that, would it not?

Mr. Gleason. About $7 million, offhand.

Mr. Ostertag. Your program of research is costing, instead of $35 million is now $42 million.

Mr. Thomas. It has already reached the ceiling.

Mr. Gleason. No; we are talking about a ceiling in the Veterans' Administration itself in this program, Mr. Chairman.

Mr. Thomas. I believe that logically follows. We have always questioned here why the other agencies should hand you funds for research when you have your own budget estimate on research.

We put a limitation on the National Science Foundation.

You do not get very much of your funds from them, but the Public Health Service. They are prevented from doing just exactly that.

Any further general questions, gentlemen, before we go to another subject?

DISTRIBUTION OF FREE CIGARETTES

Mr. Ostertag. While we are on this general research subject, Mr. Chairman, I have one question.

I note you have now instituted a policy of no cigarettes for your patients; is that correct?

Mr. Gleason. No free cigarettes; that is correct.

Mr. Thomas. Free cigarettes.

Mr. Ostertag. Free cigarettes.

Mr. Gleason. Yes, sir.

Mr. Ostertag. You have dispensed with that policy or practice of giving free cigarettes; is that correct?

Mr. Gleason. Yes, sir.

Mr. Ostertag. What brought that about, the general finding that cigarettes are unhealthy? I think there has been considerable publicity about this lately, and I think it might be well to have a little reaction on the record to this.

Dr. McNinch. Mr. Ostertag, I think the final action which we have just taken to prohibit the acceptance and distribution of free cigarettes in the veterans medical facilities was the immediate result of the report

of the Committee to the Surgeon General of the Public Health Service. Actually, in looking back, our Providence, R.I., hospital stopped the distribution of free cigarettes in 1957. I suppose they did this in the belief of the medical staff there that this was contra-indicated, not healthful, because a lot of physicians have felt for many years that cigarettes and smoking were harmful. I do not think it surprised very many physicians when the Surgeon General's report came out the way it did. Most of us knew what it was going to say because the evidence has been accumulating a long time. Actually, a number of our hospitals at various times since 1942 have stopped the distribution of free cigarettes. This was of some interest to us because we were interested in the reaction of the patients to this. We were interested in the reaction of the voluntary service organizations to this because this is one of the devices whereby they give to patients anything the patients want. Actually, the experience we have had indicated there was very little reaction in the past to this.

Of course, patients can still buy cigarettes. It is possible for voluntary organizations, if the patient really needs or wants to smoke, and has no source of free cigarettes available, to give him canteen coupon books or money in order that he can buy cigarettes.

Mr. OSTERTAG. If I follow you correctly, there is no prohibition on patients smoking? They are free to smoke their own cigarettes or any other donated cigarettes but you just draw the line on the issuance of cigarettes as an item in the hospitals; is that correct?

Dr. MCNINCH. Either by the hospital or by voluntary agencies. That is, no one can any longer go through a ward with a cart or a tray of cigarettes and ask who wants a cigarette.

Mr. OSTERTAG. This is prohibited as to voluntary contribution.

Dr. MCNINCH. Prohibited. There is a prohibition on free distribution.

Mr. OSTERTAG. That was not clear to me and I was not sure that if a veterans' organization servicing a hospital wanted to pass out candy or cigarettes, whether cigarettes are prohibited. I thought it was strictly a Veterans' Administration matter.

Dr. MCNINCH. We have conferred with national representatives for this past week, both the service and nonservice organizations, and explained our order and our position and the reasons therefor.

We got very fine acceptance. Of course, I think the issuance of the Surgeon General's report made a lot of difference. Actually, going out in the field we found one or two voluntary service committees had, on their own, stopped the free distribution of cigarettes after having heard about the Surgeon General's report.

Mr. JONAS. That brings up a question I suppose you have not had enough experience on to determine, whether this has reduced the use of cigarettes in your hospitals or not?

Dr. MCNINCH. We do not know what will be our experience or what will be the national experience.

Mr. JONAS. A person who is addicted to cigarettes will buy cigarettes if he has a little money—and they all have a little money. I do not see what you are accomplishing by forbidding the free distribution of cigarettes if you still permit the purchase of them.

Dr. McNinch. This becomes a matter of degree, of course, and control. To us, distribution of free cigarettes is an encouragement to the individual to smoke cigarettes.

Mr. Ostertag. Is it not in a sense putting more of a burden on the patient himself rather than any one other thing?

Dr. McNinch. That is right. Our action is, of course, consistent with that taken by the Public Health Service in their hospitals and by all Department of Defense hospitals.

Mr. Thomas. Gentlemen, let us get back to the budget and take a look at "Medical administration, miscellaneous operating expenses." What is covered in medical administration? Research?

Dr. McNinch. No, sir.

Mr. Thomas. That is a separate appropriation. What all is covered by medical administration? It has nothing to do with general operating expense. It does not cover inpatient care. What is covered in medical administration?

Mr. Monk. Basically, it is Dr. McNinch's staff here in Washington, the area medical offices, and the Assistant Administrator for construction staff here in Washington.

Medical Administration

Mr. Thomas. We will put pages 19–7 through 19–12 in the record. (The pages follow:)

MEDICAL ADMINISTRATION

Program notes

This program includes those central office services responsible for the development of objectives and the administration of policies and plans to insure complete medical, dental, and hospital services for the care and treatment of veterans as prescribed by the Administrator pursuant to statutory authority and regulations. Also included under this heading are the seven area medical offices, each having an assigned geographic area and concerned with day-to-day supervision and operation of the medical program as carried out by the hospitals, domiciliaries, and clinics.

In addition to providing for needed administrative staff, this estimate includes consultants to the Administrator and the Chief Medical Director as well as the Special Medical Advisory Group. The members of this Special Medical Advisory Group meet four times a year with the Department of Medicine and Surgery to advise on medical and policy matters. They serve as liaison between the Veterans' Administration and major segments of American medicine, such as the medical schools and the various professional associations of medical specialists. Central office use of consultants is in connection with neuropsychiatry, social service, tuberculosis, and dentistry to advise and assist on policies and procedures. Consultants and attendings in area medical offices are also utilized to supplement the professional staff in those offices. They supervise specialty activities and submit reports on each hospital appraising the capabilities of the head of the particular specialty, the physical layout, the type of service being rendered, as well as criticisms and recommendations.

The mission of the agency's medical program is to provide hospital, outpatient, and domiciliary care to eligible veterans; a research program to improve methods of diagnosis and treatment; and an education and training program to improve the professional competence of its staff.

The medical care and treatment programs were conducted during fiscal year 1963 in 169 Veterans' Administration hospitals and in 19 Veterans' Administration domiciliaries, with average operating beds of 120,304 and 16,770, and average daily patient or member loads of 110,194 and 15,690, respectively. Outpatient medical and dental services for veterans were provided by all hospitals

and 33 clinics and 16 subclinics not located in a hospital setting during fiscal year 1963 and by physicians and dentists participating in the hometown-care plan. Outpatient services for fiscal year 1963 consisted of more than 5,900,000 medical visits, 40,000 dental examinations, and 48,000 dental treatments.

More than 154,000 full-time or part-time employees will be engaged in the conduct of agency medical programs in the current 1964 fiscal year. The combined administrative staff of the Department of Medicine and Surgery that will be on duty in the central office and area medical offices averages 882 employees, or less than three-fifths of 1 percent of the total employment in medical programs. This represents one of the lowest ratios of administrative employment to total program employment found in the Federal Government.

An important development during the 1963 fiscal year was the reorganization of the central office component of the Department of Medicine and Surgery.

1. The Office of the Assistant Chief Medical Director for Operations was abolished, and a direct line of authority established between the Area Medical Directors and the Office of the Chief Medical Director.

2. Two new offices were established, headed by an Assistant Chief Medical Director for Plans and Coordination and a Director for Administrative Services. The former was made responsible for the development and recommendation of policies, long-range plans, medical facilities requirements, systems and standards, and coordination of the vast departmental program. The latter was made responsible for the engineering, registrar, personnel, housekeeping, supply, and canteen services.

3. The Field Fiscal Service was placed under the Department of Medicine and Surgery Controller.

4. Slight changes were effected in the Office of the Assistant Chief Medical Directors for Professional Services and for Evaluation.

5. The functions of the Assistant Chief Medical Director for Dentistry and the Assistant Chief Medical Director for Research and Education remain unchanged.

Improved departmental staff performance under the new organizational alinement already is apparent. As a result of these changes, it will be possible to undertake additional workloads and expand present efforts in many important fields in fiscal year 1965 without requesting additional personnel for the central or area medical offices. Among the major staff actions planned are:

1. Continuance of the study of potentials for outplacement of increased numbers of eligible veterans in nursing homes.

2. Formulation of improved systems for determining physical plant maintenance and repair requirements.

3. Development of systemwide work measurement criteria to give greater effect to the President's program for improved manpower utilization.

4. Improvement of transitional procedures for incorporating medical research advances into care and treatment programs.

Cost changes

The $89,530 net increase requested in fiscal year 1965 for medical administration covers additional requirements for Public Law 87–793 salary rate and within-grade average salary increases, partially offset by savings for the one less workday occurring in fiscal year 1965. Of this total net increase, $54,530 applies to central office, and $35,000 to the area medical offices.

1. *Explanation of the $37,470 decrease for the one less workday.*—The $37,470 decrease includes the lesser requirements for object classes 11 and 12, personnel compensation and benefits payments which will be saved because of the one less paid workday in fiscal year 1965. There are only 261 paid workdays in fiscal year 1965, compared to 262 paid workdays in fiscal year 1964. Of the $37,470 total decrease, $25,470 applies to central office, and $12,000 to the area medical offices.

2. *Explanation of the $257,000 request for Public Law 87–793 and average salary increases.*—Of the $257,000 requested, $35,000 will provide an increment averaging $40 per employee toward the cost of average annual salary increases resulting from within-grade salary advances. Payment of these costs are estimated at $25,000 for the central office, and $10,000 for the area medical offices. The $222,000 remainder of the increase is required to pay the higher Public Law 86–793 salary rates effective January 5, 1964 for the full 1965 fiscal year, and is distributed $156,000 for the central office, and $66,000 for the area medical offices.

3. *Explanation of the $130,000 decrease for central office and area medical office program changes.*—Aggregate net decreases in nonpersonal services objects of expenditure amounting to $130,000 are planned in fiscal year 1965. Purchases of office equipment and initial supply stocks for new employees in fiscal year 1964 need not be duplicated in fiscal year 1965, thereby resulting in these decreases. Within the overall adjustment for nonpersonal services objects, a minor increase of $8,000 in employee travel limitation is required in connection with implementing the special study related to outplacement of patients in nursing homes.

Comparison of costs by activity

Activity	Fiscal year 1963 actual	Fiscal year 1964 estimated	Fiscal year 1965 estimated	Increase(+)or decrease (−) 1965 over 1964
Chief Medical Director	$464,588	$481,000	$508,000	+$27,000
Assistant Chief Medical Director, Professional Services	1,643,118	1,779,000	1,806,000	+27,000
Assistant Chief Medical Director, Dentistry	170,984	188,000	192,000	+4,000
Assistant Chief Medical Director, Research and Education in Medicine	118,989	127,000	128,000	+1,000
Assistant Chief Medical Director, Plans and Coordination	955,210	1,051,470	987,000	−64,470
Assistant Chief Medical Director, Evaluation	259,950	296,000	300,000	+4,000
Controller	1,090,884	1,174,000	1,194,000	+20,000
Director, Administrative Services	2,126,564	2,433,000	2,469,000	+36,000
Central office, total	6,830,287	7,529,470	7,584,000	+54,530
Area medical offices	3,431,656	3,763,000	3,798,000	+35,000
Total costs, Medical Administration	10,261,943	11,292,470	11,382,000	+89,530

Comparative analysis by object

Costs by object	Fiscal year 1963 actual		Fiscal year 1964 estimate		Fiscal year 1965 estimate		Increase (+) or decrease (−) 1965 over 1964	
	Full-time employees	Cost	Full-time employees	Cost	Full-time employees	Cost	Full-time employees	Cost
Personnel compensation and benefits:								
Consultants	7	$167,206	8	$215,000	8	$215,000		
Nurses	22	275,769	25	356,000	25	366,000		+$10,000
Dentists	14	259,233	14	282,000	14	282,000		
Physicians	63	1,251,055	63	1,296,000	63	1,292,000		−4,000
Clinical and counselor psychiatrists	9	135,019	9	144,000	9	150,000		+6,000
Other employees	740	6,948,164	763	7,737,470	763	7,945,000		+207,530
Subtotal	855	9,037,246	882	10,030,470	882	10,250,000		+219,530
Travel and transportation of persons		567,668		592,000		600,000		+8,000
Transportation of things		51,354		80,000		56,000		−24,000
Rent, communications, and utilities:								
Communications		163,322		185,000		185,000		
Rental of equipment		57,828		10,000				−10,000
Subtotal		221,150		195,000		185,000		−10,000
Printing and reproduction		193,328		190,000		190,000		
Other services:								
Repairs to furniture and equipment		6,318		7,000		7,000		
Other contractual services		68,529		73,000		29,000		−44,000
Subtotal		74,847		80,000		36,000		−44,000
Supplies and materials:								
Office supplies		15,909		25,000		20,000		−5,000
Books and periodicals		15,580		16,000		16,000		
Other supplies		32,940		34,000		14,000		−20,000
Subtotal		64,429		75,000		50,000		−25,000
Equipment		40,347		50,000		15,000		−35,000
Insurance claims and indemnities		11,574						
Total costs, medical administration		10,261,943		11,292,470		11,382,000		+89,530

Mr. THOMAS. Let me read the first paragraph on page 19–7. It is very well expressed:

This program includes those central office services responsible for the development of objectives and the administration of policies and plans to insure complete medical, dental, and hospital services for the care and treatment of veterans as prescribed by the Administrator pursuant to statutory authority and regulations.

It has nothing to do with actual treatment, handling of patients, in your 180 hospitals, does it?

Mr. MONK. 168.

Mr. THOMAS. Plus 17 doms. [Continuing reading:]

Also included under this heading are the seven area medical offices, each having an assigned geographic area and concerned with day-to-day supervision and operation of the medical program as carried out by the hospitals, domiciliaries, and clinics.

In addition to providing for needed administrative staff, this estimate includes consultants to the Administrator—

That is 7 rather than 1,019; is that correct?

Mr. MONK. Full time.

Mr. THOMAS (reading:)

The members of this special medical advisory group meet four times a year with the Department of Medicine and Surgery to advise on medical and policy matters.

Let us get down to construction. Where is that?

CONSTRUCTION PROGRAM

Mr. MONK. We have put the construction part of this appropriation back with the construction program, Mr. Chairman.

Mr. THOMAS. You did not bring it up here this year? Is any administrative expense chargeable to medical administration on the construction program?

Mr. MONK. We put that part of it back with the construction program.

Mr. THOMAS. What part of it is charged to medical administration? Is any part of it so charged?

Mr. MONK. Yes, sir.

Mr. THOMAS. Why do you not put it here where we can see it? We have to chase back here.

Mr. MONK. We tried to do what you wanted us to do in here. We tried to put this back so we could have it all together.

Mr. THOMAS. Assistant administrator for construction. You set out your costs here by activities, medical administration and education and training. Here is the assistant administrator for construction. In 1963 there were 162 jobs. Now it is 167 jobs for 1965 and an increased cost of $52,718. You have two pay increases which average what together, about 10 or 10½ percent?

Mr. WISE. Yes.

Mr. THOMAS. 7½ percent and maybe 8 in 1964 and you have 2½ percent coming up this year but that is on a half-year basis so maybe it is more than 10 percent. What is the remainder of that $52,000 increase for with only two jobs, pay act?

Mr. MONK. Two additional employees, sir. The rest is pay increase.

Mr. THOMAS. I guess that makes it, the two additional employees.

MEDICAL ADMINISTRATION—EMPLOYMENT AND COSTS

Medical administration has 882 employees this year? I thought we were cutting medical administration down. What do 882 people in the District of Columbia do? Why do you not put them in the hospitals where they belong? We will put 19–5 in the record.

(The page follows:)

Employment and object summary

	Fiscal year 1963 actual	Fiscal year 1964 estimated	1 less workday and calendar day	Public Law 87-793 and within grade increases	Program changes		Fiscal year 1965 estimated	Increase (+) or decrease (−), 1965 over 1964
					Central office	Area medical offices		
Number of area medical offices	7	7					7	
Average employment (total)	855	882					882	
Consultants	(7)	(8)					(8)	
Average payroll cost	$10,570	$11,372	−$42	+$291			$11,621	+$249
Central office employment	599	623					623	
Chief medical director	45	44			+3		47	+3
Assistant Chief Medical Director, professional services	123	126			+1		127	+1
Assistant Chief Medical Director, dentistry	11	11					11	
Assistant Chief Medical Director, research and education in medicine	9	9					9	
Assistant Chief Medical Director, plans and coordination	88	88			−7		81	−7
Assistant Chief Medical Director, evaluation	28	30					30	
Controller	100	102			+1		103	+1
Director, administrative services	195	213			+2		215	+2
Central office average payroll cost	$10,168	$10,941	−$41	+$291			$11,191	+$250
Area medical office employment	256	259					259	
Area medical offices average payroll cost	$11,511	$12,409	−$46	+$293			$12,656	+$247
Costs (total)	$10,261,943	$11,292,470	−$37,470	+$257,000	−$101,000	−$29,000	$11,382,000	+$89,530
Central office costs (subtotal)	$6,830,287	$7,529,470	−$25,470	+$181,000	−$101,000		$7,584,000	+$54,530
Personnel, compensation and benefits	6,090,432	6,816,470	−25,470	+181,000			6,972,000	+155,530
All other	739,855	713,000			−101,000		612,000	−101,000
Area medical office costs (subtotal)	3,431,656	3,763,000	−12,000	+76,000		−$29,000	3,798,000	+35,000
Personnel compensation and benefits	2,946,814	3,214,000	−12,000	+76,000			3,278,000	+64,000
All other	484,842	549,000				−29,000	520,000	−29,000
Costs by object:								
11 Personnel compensation	8,428,550	9,359,470	−34,470	+239,000			9,564,000	+204,530
12 Personnel benefits	608,696	671,000	−3,000	+18,000			686,000	+15,000
21 Travel and transportation of persons	567,668	592,000			+8,000		600,000	+8,000
22 Transportation of things	51,354	80,000			−15,000	−9,000	56,000	−24,000
23 Rent, communications and utilities	221,150	195,000			−10,000		185,000	−10,000
24 Printing and reproduction	193,328	190,000					190,000	
25 Other services	74,847	80,000			−34,000	−10,000	36,000	−44,000
26 Supplies and materials	64,429	75,000			−25,000		50,000	−25,000
31 Equipment	40,347	50,000			−25,000	−10,000	15,000	−35,000
42 Insurance claims and indemnities	11,574							
Total gross costs	10,261,943	11,292,470	−37,470	+257,000	−101,000	−29,000	11,382,000	+89,530

Mr. THOMAS. What do these 882 people do? You have here in the central office employment the medical director, 623 people? What do you do with 623 people? You have ACMD, professional services, 47. What is that? Who is the distinguished gentleman?

Dr. MCNINCH. Dr. Timm.

Mr. THOMAS. What are you doing with 44 people, Doctor?

Mr. SHYTLE. He has 126.

Dr. TIMM. In the professional services we have all of the different medical specialties represented to provide the leadership program development. We review the programs.

Mr. THOMAS. Would you not do well to put about a hundred of those back in these hospitals all over the country where they can practice that expert knowledge they have?

Dr. TIMM. We feel that we have to have program unity in order to insure that veterans are receiving the same quality of care throughout the country to the best of our ability. We have to coordinate the training efforts for these professional people in the field.

Mr. THOMAS. How long have you been with the VA Medical Department?

Dr. TIMM. Twenty-five years, except for my period of military service.

Mr. THOMAS. Where did you take your training?

Dr. TIMM. Washington University, St. Louis, and St. Louis County Hospital.

Mr. THOMAS. Was Mike Bromberg there when you were there?

Dr. TIMM. Yes, sir.

Mr. THOMAS. Where is he now?

Dr. TIMM. I do not know.

Mr. THOMAS. He was professor of surgery?

Dr. TIMM. He was in surgery.

Mr. THOMAS. He was quite talented, was he not?

Dr. TIMM. He had a particular interest in those days in the early development of physical medicine, as I recall.

Mr. THOMAS. A very brilliant mind. We went to school together 4 years. He is a very splendid individual, a hard worker, made a great doctor, I understand, a great teacher, a great professor. I think he retired a couple of years ago.

Dr. TIMM. I have not heard.

Mr. THOMAS. He moved back to Galveston, Tex. He was a great citizen. Thank you, Dr. Timm. You have been very helpful. We appreciate it.

OFFICE OF CHIEF MEDICAL DIRECTOR

How many employees does the Chief Medical Director have; 47?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. You have 11 in dentistry. That is an increase of one. Dr. McNinch has an increase of three. Why do you need an increase of three in your immediate office?

Dr. MCNINCH. This is a reshuffle in the offices, a moderate change.

Mr. THOMAS. You have not been there long enough to tell whether these letters you have been getting are true or not, so how do you know you need the three people?

Dr. McNinch. These are the changes my predecessor made.

Mr. Thomas. You did not make this budget?

Dr. McNinch. No, sir.

Mr. Thomas. When was this budget made? Last September; is that right?

Mr. Shytle. The preliminary figures came out last May. We started working with the Bureau.

Mr. Thomas. You did not defend it before the Bureau of the Budget until last September.

Mr. Shytle. That is right.

Mr. Thomas. Who defended it then?

Dr. McNinch. I defended my staff, yes.

Mr. Thomas. This is your budget, then.

Dr. McNinch. It was pretty well jelled before I arrived, sir.

Mr. Wise. There was no increase in numbers of people in 1965 for this program. Actually, seven jobs changed internally. A number of them were clerk-typist jobs that we redistributed in accordance with the workload.

Mr. Thomas. The more we talk about putting these people back in the field where they can practice medicine, the more you increase. There is a little conflict. There is only one thing to do, which is stop talking and use the pencil. That is what we will do this year.

OFFICE OF RESEARCH AND EDUCATION IN MEDICINE

You have residency and education in medicine, nine in that staff. How many did you have last year?

Mr. Monk. Nine. That is research and education.

Mr. Thomas. You mean this is your coordination of research?

Mr. Monk. Yes.

Mr. Jonas. I thought the professional services covered that.

Dr. McNinch. This is on education. It is the education, and not research, program. Personnel are paid for out of research funds. Education personnel are paid for out of this.

Mr. Thomas. Where is your narrative on that? It ought to be about 19–9 and 19–10. Where is your narrative where you explain it?

Mr. Wise. There is no narrative on this.

Mr. Thomas. Why is there not a narrative? Would you touch it on "Medical education and training" any place?

Mr. Wise. No, sir; these nine persons are charged to administration, both medical research and the education and training programs.

Mr. Thomas. We understand that. Where is the narrative in the justification to explain it?

Mr. Wise. There is nothing in the narrative, sir.

Mr. Thomas. Maybe we should take this out of the budget if you do not think enough of it to explain it. It is not very important anyway, is it?

Mr. Wise. Yes, it is, sir.

Dr. McNinch. Page 19–8 describes changes made in the organization this past year.

CENTRAL OFFICE EMPLOYMENT

Mr. THOMAS. You have medical administration program notes. An important development during the fiscal year 1963 was reorganization of the central office component of the Department of Medicine and Surgery. You state there that field fiscal service was placed under the Department of Medicine and Surgery Comptroller. With this tremendous number of people here in the District of Columbia, I do not know, but it looks to me like you are topheavy on medical administration, trying to run 170 hospitals over the phone. It certainly would cut down your long-distance bill and it looks to me as though it would afford better medicine to send out once or twice a year some guidelines to your hospital managers and your doctors.

After all, you are going to have to trust them about 20 hours a day anyway. You cannot supervise them 24 hours a day. Their judgment is going to prevail in treatment of the case. That is the primary thing they are supposed to do. I do not know what you need with this tremendous organization here. You are building it up every year, a few more people, layer on layer.

Mr. EVINS. Would you yield, Mr. Chairman?

Mr. THOMAS. Yes.

AREA MEDICAL OFFICES

Mr. EVINS. I believe it was last year that you had a reorganization in which the area officers from Philadelphia, St. Louis, Atlanta, and so on, were brought into Washington. We were deluged with telegrams saying they should be here. I supported you at that time. It was called to our attention that the hospital managers themselves had to go through another channel to reach Washington if they had something they wanted, they could not reach Washington, they had to go through the area.

Is this the result of the reorganization, just for clarification and for our own information? Is this reorganization plan being in effect? Has it resulted in a larger staff in Washington and has it resulted also in a more direct chain of command from headquarters to the hospital itself?

Mr. GLEASON. This itself has not resulted in a larger increase in Washington in the office of the Chief Medical Director in the central office.

Later on you will note down further on the page the area medical officers do come in there. This has an overall effect of increasing the number of people in Washington, Mr. Evins.

Mr. EVINS. Are the area medical officers assigned here now at this time?

Mr. GLEASON. The area medical officer is assigned here. He has certain personnel with him. The great preponderance of the officers still remain out in the seven locations.

Mr. EVINS. Does the hospital manager have to clear through the seven locations before he can reach Washington on any request?

Mr. GLEASON. Either there or directly to the area medical officer here in Washington.

Mr. EVINS. He has access to either avenue?

Mr. GLEASON. If it is necessary to go to the area medical officer, then he will come direct to Washington to him, through the area medical office to the Chief Medical Director.

Mr. EVINS. Let us say he needs some supplies. Does he come to Washington to get the supplies?

Mr. GLEASON. No, sir.

Mr. EVINS. He goes through the area medical man in the field?

Mr. GLEASON. It is not even necessary for him to do that.

Mr. EVINS. Say he needs new medicines. How does he go about procuring them?

Mr. GLEASON. Through the medical supply.

Mr. EVINS. If he has a policy matter, does he come to Washington or does he go through the area medical officer?

Mr. GLEASON. It should go through the area medical officer.

Mr. EVINS. What does the area medical man who was brought here do?

Mr. GLEASON. He is in charge of a given geographic area.

Mr. EVINS. Sort of a supervisory position?

Mr. GLEASON. That is right. He may have anywhere from 20 to 25 hospitals in his jurisdiction. He, in turn, runs those under the direction of the Chief Medical Director and his deputy for that given area.

Mr. EVINS. You really did not eliminate the level of area medical officer?

Mr. GLEASON. I do not think this is a fair thing to do right at the moment, Mr. Evins, because Dr. McNinch has just come into the Veterans' Administration, and I think it only fair that he be given an opportunity to have 6 or 7 months more to make an evaluation as to where these offices should be located or whether they should be eliminated or increased, whatever in his judgment it might be. He will make recommendations to me as Administrator at that time.

Mr. EVINS. I supported the Administrator in bringing these men in here, but if they are in here in surplus supply and the chairman feels they can be more useful in the hospitals in the field, it might be better to do that.

Mr. GLEASON. These particular people were not in the hospitals. You must remember, sir, that this is a tremendous administrative problem, running so many hospitals, running around 135 to 140,000 personnel. You just cannot do this with a handful of people. Here with Dr. Timm in charge of professional services, he has 127 people. This is less than one person for each hospital that he has the responsibility for.

MEDICAL PROGRAM ADMINISTRATION

Mr. THOMAS. Why does he need so many people? I cannot buy that. Is he running the hospital or is the man on the ground running the hospital?

Mr. GLEASON. The man on the ground is running it.

Mr. THOMAS. Dr. McNinch, if he has had the hospital experience you say he has—I know he has—he knows better than anybody that you cannot run the hospital from a thousand miles away. The man on the ground has the day-to-day and the hour-to-hour responsibility.

Dr. MCNINCH. I know if I am to be responsible for the medical service in the Veterans' Administration, I need a certain administra-

tive staff to see that the right policies are established, that the policies are carried out, that good management is effected. I perhaps am not as interested in some details of management as some other people in Government are, but this is an important element. I could not defend job by job the 619 people in my office.

SURVEY OF MEDICAL ADMINISTRATION

I have directed as of January 23 that a manpower survey be made to not only determine whether or not the number of individuals present are necessary but what perhaps is more important, are all the functions that they are carrying out essential?

Mr. JONAS. Who is going to do that survey?

Dr. MCNINCH. It will be done by some of my own personnel, supervised by me.

LAYERS OF SUPERVISION

Mr. JONAS. I follow you that you need some supervision, but you have too many layers of it, I am afraid. You have a layer in the hospital, you have a man in charge. If he is not a good man, you will get rid of him. Then you have your area people. Then you have 28 evaluation people and 88 making plans and doing coordinating work, and 123 professional services. You do not tell us why you need all those layers.

Dr. MCNINCH. After 7 months, I cannot tell you why I need them.

Mr. JONAS. You have some people who have been in the Department 25 years.

Dr. MCNINCH. They apparently feel I do need them, and they so advise me.

Mr. JONAS. Maybe they can tell us.

Dr. MCNINCH. I have had experience in managing pretty large medical services. I know there are many complaints generated about medical services. I know that those complaints come to my office. They do not go to the hospital director, nor can he satisfy them.

Mr. JONAS. Who do you turn those over to; your evaluator?

Mr. MCNINCH. Yes, sir.

Mr. JONAS. Is that what they do, the 28 engaged in evaluation?

Dr. MCNINCH. That is one of his functions, sir.

Mr. JONAS. Why do you not turn it over to your area man?

Dr. MCNINCH. I think that they do go to the area eventually.

Mr. JONAS. They go to your evaluation section, then to the area?

Dr. MCNINCH. Right, sir.

Mr. JONAS. Then to the local hospital?

Dr. MCNINCH. Yes, sir.

PLANS AND COORDINATION

Mr. THOMAS. Look at your "Plans and coordination," up 88.

Mr. JONAS. Eighty-eight people, "Plans and coordination." What is the difference between your duties and your professional services people? I thought the professional services people made the plans and coordinated the program.

Dr. McNinch. May Dr. Zink, Chief of that Service, answer that question?

Mr. Thomas. Surely.

Dr. Zink. The Office of Plans and Coordination was set up as a staff function of the Office of the Chief Medical Director. We are responsible for a substantive program, long-range planning, hospital requirements section, reporting to the statistical service and standards service, which also has an administrative research element in it. In addition, we have overall coordinating function of various activities of the Department.

Mr. Thomas. Doctor, you have used a lot of big words. What do you do? Coordinating—we have been coordinating for 25 years. We do not known what we mean by it yet. Just what do you do? You hear these hospital managers talk, and they say you give them a rough time. They try to reciprocate. You tell them how to run their hospital over long distance. They say they know more about it than you do. They want to put a wing on a hospital and you tell them where to drive the nails, do you not, you and the construction people?

Dr. Zink. We help them develop plans.

PLANNING OF MEDICAL FACILITIES

Mr. Thomas. Some of the worst mistakes I have ever seen were made in connection with some of these hospitals. Were you the one who was responsible for all these fine NP hospitals that covered about 99 acres where they have to get on bicycles to ride from one end to the other? Now they change the plan and make them all high-rise structures. Who made that mistake? Were you over there then?

Dr. Zink. No, sir.

Mr. Thomas. What distinguished gentleman did that?

Dr. Zink. Those are generally attributed to Dr. Hahn.

Mr. Thomas. We ought to give him a medal.

Dr. Zink. He left the agency back in 1953.

Mr. Thomas. He was under Dr. Magnuson?

Dr. Zink. Yes, sir. There are very few matters that come up in the Department that affect only one element. They generally ramify throughout the various parts. To coordinate with each group, to make sure that the total package, when it gets up to Dr. McNinch, has been thoroughly developed by all parts of the office, this is one of our functions, coordinating the functions.

Mr. Thomas. Make it difficult for everybody down below. That is all it adds up to. If a man is going to be responsible for the hospital and run it, he has to be there.

MANAGEMENT LEVELS

Mr. Evins. The managers of these hospitals are all excellent men who know their business and do a good job, but they cannot reach Washington on any matter. They have to go through other levels with no direct access to headquarters.

Mr. Gleason. If I might say, this is somewhat analogous to all of us who have had service in one of the branches of the armed services.

Taking the Army, with which I am more familiar, a company-sized unit has a company staff, whether it is noncommissioned or commissioned staff. From there, to run that company effectively they have to have a certain staff. Then you go up to a battalion size. Once again you have to have a larger staff because you have anywhere from 5 to 10 companies under you. From there you go up to a division staff. This is somewhat the same position that we find ourselves in in trying to run a large organization.

Mr. JONAS. You do not mean you are going to try to model the VA after the Army or the military services in the use of personnel, do you?

Mr. GLEASON. No, sir.

Mr. THOMAS. That is just what he got through saying, copying it exactly.

Mr. GLEASON. Mr. Chairman, don't put words in my mouth.

Mr. THOMAS. It was your example, not ours.

Mr. GLEASON. That is right.

Mr. OSTERTAG. Let me put the question another way. Suppose this was a private enterprise and you were the president or chairman of the board of this corporation. Do you think that in order to have it operate efficiently and properly and well and productively you would need all these lawyers, and the magnitude of operation that you have in being today?

Mr. GLEASON. This is a difficult thing to say at the moment because, as Dr. McNinch has mentioned, he is having an evaluation study made as to whether he actually does need this. I think every now and then in an organization our size——

Mr. THOMAS. He has been there 8 months and he will say yes. If he cannot make up his mind in 8 months, he cannot do it in 10 years.

Mr. GLEASON. That is not quite fair.

Mr. THOMAS. We are not all children and neither is the doctor. How much time does he need?

Mr. GLEASON. I think he needs another 6 to 8 months.

Mr. THOMAS. He is familiar with hospitalization, he is a doctor, he has been engaged in hospital practice for years and years. You say 8 months is not enough.

Dr. MCNINCH. If you ask me as of today to make a judgment, I would say yes, I need the area medical officers.

Mr THOMAS. We knew that was the answer, we anticipated that.

Dr. MCNINCH. I would further ask how many people at the table have ever managed a medical service.

Mr. THOMAS. I doubt if there is any. We could not do any worse than some of you folks have done. Certainly, spending a million dollars over there for equipment is a pretty good example. Nobody knows what is going on. You have 700 people here in your big office and could not even catch that.

Are there any further questions? If not, gentlemen, we will stand adjourned until tomorrow morning.

THURSDAY, FEBRUARY 13, 1964.

Mr. THOMAS. The committee will please come to order.

Dr. MCNINCH. Mr. Chairman, with your permission, I would like to apologize to you and to the members of the committee.

Mr. THOMAS. For what, Doctor?

Dr. MCNINCH. For losing my temper yesterday and making remarks not appropriate to the occasion.

Mr. THOMAS. That is all right. We let anybody say anything he is big enough to get by with. You are nice to say that. Thank you very much.

We are taking a look at Medical administration. This Program 1700 is included in this language, is it not? The Program 9000 is under construction; so you have two programs.

Mr. MONK. That is right.

Mr. THOMAS. After fishing around this morning, I discovered it is all wrapped up in 9000 rather than 1700; is that correct?

Mr. MONK. That is correct, sir.

AREA MEDICAL OFFICES

Mr. THOMAS. You have a separate item set out on page 9–5 for area medical offices, an increase of $35,000, bringing it to $3,798,000 as against $3,763,000. We have already put this justification material in the record.

Of your 882 employees, how many are charged against the area medical offices?

Dr. MCNINCH. 259.

OTHER OBJECTS—MEDICAL ADMINISTRATION

Mr. THOMAS. Let us look at your travel and other objects. Travel goes up $8,000 to $600,000 as against $592,000 last year and $567,000 in fiscal 1963.

Transportation of things shows a decrease of $24,000.

Rent, communications, and utilities, $185,000, down $10,000.

Heretofore you testified in one of the subheads that your communications bill, particularly the spoken word and the printed word, had gone up by virtue of certain activities of the General Services Administration. No increase is reflected here, is there?

Mr. WISE. Those charges will be paid under the "General operating expenses" appropriation, Mr. Chairman, by arrangement with GSA.

Mr. THOMAS. In other words, you get a free ride here.

Mr. WISE. For that service; yes, sir.

PRINTING AND REPRODUCTION

Mr. THOMAS. Printing and reproduction is $190,000. What do you print for $190,000? That is a lot of money for printing. How many publications do you have?

Office supplies, a reduction of $5,000. Books and periodicals, $16,000, $16,000 last year.

What about your printing? Where is that set out?

Mr. SHYTLE. We could supply the complete detail on this printing for the record. We have subsidiary information on printing for the

agency, broken by appropriation, and have a detailed description of our printing.

Mr. THOMAS. Where is all that valuable information, Judge?

Mr. SHYTLE. It is in another place.

Mr. THOMAS. It is not in our book. Is it secret?

Mr. SHYTLE. No, sir.

Mr. THOMAS. It is in your book but not in our book?

Mr. SHYTLE. We will give it to you if you like.

Mr. THOMAS. Is it secret, gentlemen? How many different pamphlets are you printing? Are you the printer?

Mr. SHYTLE. No, sir; I am the Controller. The printer was here for 2 days. He is on standby. He can come back with several boxes of printed materials of all types we print in VA. We could have him here within a few minutes.

Mr. THOMAS. Did we reduce this last year? In 1964 what did you have?

Mr. GLEASON. Doctor, is there not somebody here who can tell the chairman what you print for $190,000?

Mr. WISE. The $190,000 covers mainly forms and form letters which are initiated by the central office in prescribing reporting procedures for the system. The initial stocks at the time a new form is introduced are paid for under "Medical administration" and distributed in the initial quantity at no cost to the field stations; but if replenishment of the stocks is required, the field stations from that point on buy through the supply fund. The printing and reproduction activities are under that.

Mr. THOMAS. What was your budget estimate for 1964?

Mr. MONK. $196,000. The one we had last year was $196,000.

Mr. THOMAS. What limitation was put on it?

Mr. WISE. There was no limitation originally imposed. We did volunteer the $6,000.

Mr. THOMAS. There was a reduction of 15 percent.

Mr. MONK. In your report you asked that printing be reduced 15 percent.

Mr. THOMAS. It was not done in this instance.

Mr. MONK. The Senate report asked that it be reduced 7½ percent. Overall, we have reduced about 10 percent in this budget.

Mr. THOMAS. Your table does not reflect it.

Mr. MONK. No, sir; because we have revised the middle column here, as we always do.

Mr. THOMAS. What was your budget estimate for 1964?

Mr. MONK. $196,000.

Mr. THOMAS. You reduced it to $190,000?

Mr. MONK. In this document; yes, sir.

Mr. GLEASON. In this particular phase, Mr. Chairman. Throughout the entire agency we have reduced it more than 10 percent.

Mr. THOMAS. What did the conference report state?

Mr. MONK. If I may, I will read it to you, sir:

Amount recommended for travel and printing by the House of Representatives Committee on Appropriations has been generally reduced 15 percent below the budget estimates. The committee also recommends that each agency review carefully its spending for such purposes in order that it may make further reductions.

Mr. THOMAS. You are reading from the House report.

Mr. GLEASON. He is coming to the Senate.

Mr. THOMAS. I am asking about the conference report. Was there anything in the conference report about this?

Mr. GLEASON. Not that I am aware of, sir.

Mr. THOMAS. We did not put anything on printing in the conference report.

Mr. JONAS. May I ask a question?

Mr. THOMAS. Yes; go ahead.

Mr. JONAS. What is the difference in item 24 on page 19–12 and your summary on 19–1? That shows printing and reproduction cost last year as $210,000.

Mr. WISE. The table on 19–1 is the summary for the appropriation, which includes the requirements for the Assistant Administrator for Construction. The table on 19–12 relates only to the medical administrative programs, that is the pure operation of the Medical Department central and area offices.

Mr. JONAS. The $20,000 increase on 19–1 is for construction?

Mr. WISE. It covers requirements of construction and any printing requirements of the education and training program which is also funded under this appropriation.

OTHER OBJECTS, MEDICAL ADMINISTRATION

Mr. THOMAS. What is the cost of your "Other objects?" I do not see the total. Excluding personnel costs and personnel benefits such as insurance, and so forth. What is the cost of your "Other objects?"

Mr. MONK. $1,132,000 in this Medical Administration.

Mr. OSTERTAG. Where is that shown?

Mr. MONK. It is the difference between $11,382,000 and $10,250,000 for personnel services.

Mr. THOMAS. You have $600,000 for travel and transportation of persons; $56,000 for transportation of things; $185,000 for rents, communications, and utilities; printing and reproduction, $190,000. You mean it all adds up to what?

Mr. MONK. $1,132,000.

Mr. THOMAS. Did you add that or estimate it?

Mr. MONK. I deducted it. I took the total personnel cost from the total cost.

Mr. THOMAS. Your personnel cost is what?

Mr. MONK. $10,250,000.

Mr. GLEASON. That is on 19–12, third column.

Mr. THOMAS. I have $11,382,000 here for total cost of Medical Administration.

Mr. GLEASON. Yes, sir; take $10,250,000 from the $11,382,000. This will give you your cost.

Mr. THOMAS. Where is the remainder of the $14,950,000?

Mr. WISE. Education and training program and Office of the Assistant Administrator for Construction.

Mr. THOMAS. Three items make it up?

Mr. WISE. Yes, sir.

Mr. THOMAS. We will go into that. The appropriating language covers really three items—construction, program 1700; medical administration, and employee education and training; correct?

Mr. GLEASON. Yes, sir.

ASSISTANT ADMINISTRATOR FOR CONSTRUCTION

Mr. THOMAS. Let us take the next, "Assistant Administrator for Construction," 19–13. This is program 1700. It is the smallest of the three. When we get over on construction, which is the last tab in the book, we will go into this program.

MEDICAL EDUCATION AND TRAINING

Let us take "Medical Education and Training." Put 19–14 in the record.

(The page follows:)

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

Education and training activity and object summary

	Fiscal year 1963 actual	Fiscal year 1964 estimated	Program changes, postgraduate and inservice training	Fiscal year 1965 estimated	Increase (+) or decrease (−), 1965 over 1964
Costs by activity:					
Residency training	$120,558	$130,000		$130,000	
Postgraduate and inservice training	1,270,307	1,455,000	+$40,000	1,495,000	+$40,000
Medical illustration [1]	308,185				
Total	1,699,050	1,585,000	+40,000	1,625,000	+40,000
Costs by object:					
21 Travel and transportation of persons	875,906	979,000	+40,000	1,019,000	+40,000
22 Transportation of things	13,472				
23 Rent, communications, and utilities	5,379				
24 Printing and reproduction	25				
25 Other services	564,508	546,000		546,000	
26 Supplies and materials	218,673	60,000		60,000	
31 Equipment	21,087				
Total gross costs	1,699,050	1,585,000	+40,000	1,625,000	+40,000

[1] Effective with the fiscal year 1964, financing for medical illustration activities was consolidated under the "Medical care" appropriation.

Mr. THOMAS. This is by activity and objects. Effective with fiscal year 1964, financing for medical illustration activities was consolidated under the medical care program. What is that? Is that your films, et cetera?

Mr. MONK. Pictures.

Mr. THOMAS. Put pages 19–15 and 19–16 in the record.

(The pages follow:)

EDUCATION AND TRAINING

Program notes

The Veterans' Administration, for reasons of sustaining the quality of its program of medical care, is affiliated with the Nation's medical schools. In fiscal year 1963, 89 VA hospitals were affiliated through deans' committees with 78 medical schools. By virtue of these arrangements, the Veterans' Administration is inextricably linked to the advancing edge of medical progress.

This is a great boon to the veteran patient whose treatment thereby is supervised by a physician who insists on knowing and doing the best. The academically oriented physician values his continuing professional development highly and knows that in addition to his responsibilities for patient care, he must invest time and effort in his own education as well as in research and teaching. Having been attracted to the Veterans' Administration because of affiliation with

the medical school, such a physician must find the right climate for increasing his skills and knowledge or he will not stay.

Thus, it is of utmost importance to the maintenance of a staff of high quality that opportunities in research and education be afforded by the Veterans' Administration. This is accomplished by participation of Veterans' Administration staff members in the teaching of medical and dental students and residents and physicians and dentists taking postgraduate courses. The Veterans' Administration also maintains a research program of major proportion. Various programs of education in fields allied to medicine are also conducted in Veterans' Administration hospitals in conjunction with institutions of higher learning. The Veterans' Administration is faced with a demand which can be met only partially to provide advanced education to members of its staff. Some indication of the scope of the present education and training programs in the Department of Medicine and Surgery is given in the following paragraphs.

Veterans' Administration employees participated in 649 individual medical residency programs offering training in 21 medical specialties. The 3,001 VA medical residents on duty December 31, 1962, represented about 10 percent of the Nation's medical residents. More than 300 of the medical residents then on duty were "career" appointments in fields where significant medical staff shortages existed. These appointees receive regular staff compensation and are obligated to serve the Veterans' Administration full time for a specified period upon completion of residency training.

An increasing number of undergraduate medical students receive training each year in VA hospitals and clinics. VA clinical clerkships are provided in the last 2 years of medical school. Physical diagnosis and other basic subjects are covered in the first 2 years. During the 1963 fiscal year there were about 8,500 medical school assignments consisting of approximately 6,900 clinical clerks and 1,600 first- and second-year students.

Twenty-nine dental residency programs and 40 dental internship programs were offered at 40 VA hospitals in affiliation with 35 dental and 4 medical schools. Veterans' Administration dental residency and internship programs constituted 21 percent of all dental residency programs and 19 percent of all dental internship programs in the United States.

The Veterans' Administration continues to make a major contribution to the Nation's needs in nursing education. Slightly more than one-tenth of the students graduating from schools of nursing each year are provided with student experience in VA hospitals. The number of VA hospitals participating in basic professional education for nurses increased from 49 in 1962 to 58 in 1963. More than 3,400 students from approximately 10 percent of the Nation's schools of nursing were provided clinical practice in these hospitals. There also were 284 non-VA registered nurses in advanced programs at 22 different colleges and universities who had VA clinical practice.

Training conducted in a variety of other disciplines under the supervision of academically oriented VA staff and university and college personnel provides valuable service to patients and aids dramatically in the recruitment of highly qualified full-time VA staff. During their period of training, most of the trainees are accorded the status of part-time employees with opportunity to obtain full-time employment at advanced salaries upon successful completion of training.

Funds requested for the education and training program are used solely to pay expenses incidental to education and training of employees that are journalized and paid under other medical appropriations or programs of the agency. These expenses include costs of tuition, travel, lecturers' fees, services, and materials required for the conduct of training activities.

Veterans' Administration personnel of all specialties and disciplines participate in intra and extra VA educational assignments including courses, institutes, seminars, or meetings offered by universities, medical schools, and professional organizations. A number of the VA meetings are conducted annually and are of such educational merit as to attract considerable attendance by staff of other Federal agencies and representatives of health agencies and medical colleges of the United States, Canada, and oversea countries.

Mr. THOMAS. Let us look at the narrative (reading):

The Veterans' Administration, for reasons of sustaining the quality of its program of medical care, is affiliated with the Nation's medical schools. In fiscal year 1963, 89 VA hospitals were affiliated through deans' committees with 78 medical schools. By virtue of these arrangements, the Veterans' Administration is inextricably linked to the advancing edge of medical progress.

That statement is inconsistent with that of Dr. McNinch yesterday that the medical colleges say you are doing a second-rate job.

This is a great boon to the veteran patient, whose treatment thereby is supervised by a physician who insists on knowing and doing the best. The academically oriented physician values his continuing professional development highly and knows that in addition to his responsibilities for patient care, he must invest itme and effort in his own education as well as in research and teaching.

I am trying to find personnel costs.

Mr. MONK. There are no personnel attached to this particular part of the program. We do pay lecturers.

Mr. THOMAS. It is paid not from "Medical administration" but from "Inpatient care."

NUMBER RECEIVING TRAINING

How many people are involved in the program?

Mr. MONK. On page 19–18 there is a breakdown of the total number of people involved.

Mr. THOMAS. Lectures for full-time staff. Is this figure of 2,800 supposed to be it, or 2,050 for 1963, 2,800 for 1964?

Mr. MONK. That is the number of lectures.

Mr. THOMAS. I am trying to find out how many people——

Mr. MONK. Down below, tuition and registration for full-time staff. Here we pay tuition and registration fees for a total of 2,726 people under this appropriation.

Mr. THOMAS. Tuition and registration for full-time staff. Number of staff, 2,721, 2,726. Are these all doctors?

Mr. MONK. It is broken down there, physicians, dentists, and nurses, 1,002. Therapists, technicians, et cetera, 1,006. Medical administrative employees, 718. This is where we pay tuition and registration fees to a college or university. Down below we send people to other stations.

Mr. THOMAS. Professor, may I interrupt you? Have you ever seen anything more disjointed and disconnected? Would it not be a whole lot simpler to spend 2 or 3 minutes with a little narrative and follow it up with this table so we can understand what you are talking about?

Mr. MONK. We have some narrative.

Mr. THOMAS. Where is it?

Mr. MONK. On page 19–16 and 19–17.

Mr. THOMAS. Where does it set out number of people enjoying this training in the narrative? That is what we are trying to find (reading):

More than 3,400 students from approximately 10 percent of the Nation's schools of nursing were provided clinical practice in these hospitals.

"Twenty-nine dental residency"—you are talking about dental students here. I am sure it is here, but you have to get a search warrant to find it. Do you have that search warrant in your pocket, so you can put your hand on it right quick?

Number of staff, total, does that mean total number of doctors and nurses and dentists and specialists you have or what does the word "total" mean?

Mr. MONK. It means numbers of staff, total number of staff that are traveling and being paid from this appropriation in connection with education and training activities.

Mr. THOMAS. You mean they have to travel before you pay the tuition; is that right?

Mr. MONK. That is right. They also go to professional meetings. They go to other stations.

Mr. THOMAS. Your next one down here, you come up with this requiring travel. Number of staff, total, you have an increase of 314 up to 8,023 requiring travel. Above there you got tuition for registration. You said something about travel up there and here is travel down here.

Mr. JONAS. This is a new system. I always was taught that you put the total at the bottom so you can add up the figures and put the total, but here you have to add up.

Mr. THOMAS. How many doctors do you have taking this program? How many nurses? I presume you break your doctors down between M.D.'s and dentists. How many technicians? Put it where we can understand it. What is your average cost of travel? How far do they travel? How often do they travel?

Mr. MONK. $127 is average.

Mr. THOMAS. You spend a lot of money for travel. Where do they go and how long do they stay when they get there?

Mr. WISE. These are usually short courses of 1 or 2 weeks' duration, refresher courses, professional meetings.

TYPES OF EDUCATIONAL TRAVEL ASSIGNMENTS

Mr. THOMAS. Most of your travel is right across the street to your medical school, is it not?

Mr. WISE. No, sir.

Dr. MUSSER. There are two types of travel. There is travel to courses where tuition and registration is necessary sometimes running a week or 2 weeks in duration. Also there is travel to medical and scientific meetings usually of 3 or 4 days' duration. They are located in various parts of the country. Thus the distances depend upon the location of the meetings.

Mr. THOMAS. How many of your doctors attended those seminars and what did it cost?

Dr. MUSSER. As indicated on the chart, the average cost of transportation——

Mr. THOMAS. I am talking about where doctors go to seminars, dental and medical societies, and they meet for 2 or 3 days.

Dr. MUSSER. A typical example would be the Society for Clinical Investigation in Atlantic City. It is a meeting that takes place each May. I would imagine that approximately 200 attend that meeting. We would probably pay the expenses of 100 of them and the rest go there on their own.

Mr. THOMAS. How do you draw the line as to whether they travel at Government expense?

Dr. MUSSER. If they are invited to present a paper at this meeting which is of scientific significance and it is a report of work they have

done in the Veterans' Administration, we will then pay their transportation. If they go simply to attend the meeting——

Mr. THOMAS. That is quite an honor. I notice in the justification, your research program, you come up with a figure which I have forgotten, the number of papers that were read at various medical societies. What was that figure?

Dr. MUSSER. Something over 2,000 during this fiscal year.

Mr. THOMAS. Everybody must have had a paper.

Dr. MUSSER. There are a lot of medical meetings.

Mr. THOMAS. You weaken your case considerably by that large number of 2,000 and then by your further statement of a lot of medical meetings. Are they remarks or really studies? Do you have eminent people in the field lecturing?

Dr. MUSSER. I think we have eminent people in the field. In our research program we have slightly under 7,000 projects, and these 2,000 reports each year represent reports of the research which has been accomplished during the course of that year.

Mr. THOMAS. We are going into your research program in a minute. This is education. They have to be educated before they do that research and become prominent; is that right?

Dr. MUSSER. That is our effort.

Mr. THOMAS. When you get them well educated, they pull out. How long do they stay with you?

Dr. MUSSER. This varies. We have physicians who have been with us for 25 years. We have a large number of physicians who joined the Veterans' Administration immediately after school.

NUMBER OF PHYSICIAN EMPLOYEES AND TURNOVER

Mr. THOMAS. I understand some of your oldtimers are very dedicated. What is the turnover among your M.D.'s throughout the Administration? How many M.D.'s did you have aboard say January 1 in all your 170 hospitals and your 18 doms? Do you recall the number?

Dr. MUSSER. I think we have that figure.

Mr. WISE. 4,730 full-time physicians, approximately 11,000 part time, which would fall under the categories of residents, interns, consultants or attendings. Dentists, 688 full time, approximately 700 part time.

Mr. THOMAS. Stay with your doctors now, the M.D.'s. How many of those do you have full time?

Mr. WISE. 4,700.

Mr. THOMAS. What is the turnover annually?

Dr. ENGLE. 12.1 percent for the last fiscal year.

Mr. THOMAS. For your larger number, what was the other number?

Mr. MONK. About 18 percent for the total.

Mr. THOMAS. Of your residents, what number is that?

Mr. WISE. We have five categories, regular, part time, community physician coming in so many hours a week, 892. Medical residents, 2,638. Medical interns, 168. Consultants, 6,020.

MEDICAL CONSULTANTS

Mr. THOMAS. When you get over to your research program, we cannot find that figure of 6,000 consultants.

Mr. WISE. 6,020.

Mr. THOMAS. That is the number of consultants you have in your research program?

Mr. WISE. No, sir; 95 of this number are in the research program.

Mr. THOMAS. I am talking about your consultants.

Mr. WISE. Within the agency there are 6,020 medical consultants, 95 of that number are working in the research program.

Mr. THOMAS. What do your consultants do? Most of them are engaged in your research program, are they not?

Mr. WISE. No.

Mr. THOMAS. I notice you set out the figure of 95, but I could not think that is correct. You have more than 95 people by 10 or 15 times that number coming in once or twice a week or two or three times a week or sometimes every day in your various hospitals from your medical schools in a consulting basis.

Mr. WISE. They are coming to treat patients, not to engage in the technical work of a research program.

Mr. THOMAS. You had better look at your records again. It is more than 95. It cannot be that low.

Mr. WISE. There are 6,020 coming into the hospitals. Of that number 95 are specifically working in research activities.

Mr. THOMAS. Only 95?

Mr. WISE. Yes, sir; the vast majority work in the patient-care areas.

Dr. MCNINCH. Mr. Chairman, I think I pointed out yesterday many of the physicians—very fine ones—become involved in teaching, patient care, and in research. I am sure that many of the consultants from the medical schools are involved in both teaching, patient care, and research in the hospital; but under our budgeting system they have to be charged to one program or another.

Mr. THOMAS. That figure of 95 is not within four city blocks of being accurate.

Mr. WISE. I think this may clarify the issue. Of the 6,020 consultants in the agency, these are individuals, 49 worked in the central office, 321 helped the area medical offices, 95 worked in research, 946 worked in neuropsychiatric hospitals, 4,203 in the general hospital, 21 in the domiciliaries, 385 in the outpatient clinics, a total of 6,020.

Mr. OSTERTAG. These are all part-time consultants?

Mr. WISE. That is correct, sir.

CONSULTANTS PARTICIPATING IN RESEARCH

Mr. OSTERTAG. In what way is a consultant directly associated with the research? You say he is not in the technical end of it in the laboratory but only in the patient end; is that correct?

Dr. MUSSER. Sir, I would like to answer that question. We have long had a policy that no medical school faculty member would be paid for actively participating in any type of research project.

Mr. THOMAS. Why? What is the sense of that?

Dr. MUSSER. We consider that the opportunity to do research is a privilege and we should not pay medical school people for having that privilege.

Mr. THOMAS. You are looking for brains.

Dr. MUSSER. We get the brains because they will collaborate with us, and it is not necessary for us to pay them. Under certain circumstances, where we need expert consultation——

Mr. THOMAS. You mean you put up your staff against the staff of these medical colleges that do the training of your staff? Why do you have them over there if they are not better than your people? Let us save this fee of 6,000 consultants that you are paying out every year. Let us save that. You have 6,020. Why?

Dr. MUSSER. Because they contribute materially to the standard of care.

Mr. THOMAS. These top brains in the medical profession are not in the Veterans' Administration; they are in the medical colleges and research institutions. Everybody knows that. You mean you have a rule you do not let them come over and take part in your program? Why do you build your hospitals adjacent to them?

Mr. MONK. I think what Dr. Musser said was that we have many doctors affiliated with medical schools—on the faculties of medical schools—that come into our facilities to do research, but we do not pay them a consultant's fee.

Mr. THOMAS. He said only 95 a while ago. Certainly 95 is not many in 170 hospitals.

Mr. MONK. Only 95 are getting compensation as a consultant for participation.

Dr. MUSSER. The only circumstance that would cause us to pay a consultant in research is when he provides us with expert opinion which we need in the conduct of the research, but when he is not a participant in the research project per se.

RESEARCH FUNDS FROM GRANTS

Mr. THOMAS. What is your connection with HEW? Do you get any funds out of HEW for research? Do you get any funds out of the National Science Foundation for research?

Dr. MUSSER. We get grants, our people get grants from the National Institutes of Health. We do not get money from the National Science Foundation.

Mr. THOMAS. The NSF is mainly engaged in the physical sciences, not in the biological and medical sciences, although they do have a small biology program. Why do you accept money from HEW?

Dr. MUSSER. Because our investigators apply for grants, their work is considered good enough to qualify for grants; therefore, they get the grant.

Mr. THOMAS. We had a prohibition in the Independent Offices Appropriation Act last year against one agency contributing to another. What became of that? Did it apply only to the National Science Foundation?

Mr. OSTERTAG. Yes.

Mr. THOMAS. The reverse will have to be adopted. That is the agencies being prevented from receiving it.

Dr. McNinch. These grants from NIH are not made directly to the Veterans' Administration but are made to the medical school and worked frequently as a joint effort on the part of both the medical school and the VA.

Mr. Thomas. Your table shows they were made directly to the VA.

Mr. Ostertag. Is this actually a transfer of funds from HEW to the Veterans' Administration?

Dr. McNinch. No, sir. If you look on page 20–19, the $4,448,000 in NIH is under a column headed "Administered by an academic institution."

Dr. Musser. Sir, the only instance where a transfer of funds——

Mr. Thomas. What is the tie-in? There is bound to be a tie-in some place. If you do not get funds, do you claim you do not get any funds from NIH?

Dr. Musser. No, sir.

Dr. McNinch. One exception, the contract for cooperative cancer chemotherapy study, very special, a national cooperative study.

Mr. Thomas. What do you get for that?

Mr. Gleason. $1,189,000.

USE OF NIH RESEARCH GRANTS IN VA HOSPITALS

Mr. Thomas. These universities and colleges adjacent to your hospitals gets funds from NIH. Do you have some working arrangement that if they will take their funds or their brains and come to your facility, that you will furnish free rent and maybe some equipment with your own funds and they will conduct their research in the VA installation?

Dr. Musser. No, sir.

Mr. Thomas. There is no tie-in with them whatsoever?

Dr. Musser. We have circumstances where we encourage the collaboration of medical school faculty with our own physicians in the pursuit of research objectives important to VA medicine.

Mr. Thomas. Off the record.

(Discussion off the record.)

Dr. Musser. Approximately 2,000 of our physicians have faculty appointments in medical schools. For this they receive no pay but they are identified as members of the faculty. Being members of the faculty they are eligible to apply, through the university, to NIH for grants. If they are fortunate enough to get the grants they may do their work in our hospitals and in some cases they may collaborate with university facility members.

Mr. Ostertag. In other words, the VA facilities or hospitals are used or employed in connection with these research grants that are going to educational institutions?

Dr. Musser. Only if the recipient of the grant happens to be a VA physician. In other words, a faculty member of a medical school who receives a NIH grant would not work in a VA hospital unless collaborating with a VA physician.

I can tell you of circumstances where, in the beginning of certain medical schools like UCLA in Los Angeles, they had no physical plant for a short time and some of their scientists did work in our hospitals. However, as soon as their physical facilities were established that was terminated.

Mr. THOMAS. You people have not been in the research business more than 10 years or so. It was started right here in this room. In your basic act, if you get a magnifying glass, you would find the word "research" maybe once or twice in a left-handed way. You remember that, do you not?

Dr. MUSSER. I remember reading it; yes, sir.

USE OF MEDICAL CONSULTANTS

Mr. BOLAND. You say of 6,020 consultants you have 95 in research and 4,200 in your general hospitals and 946 in the NP's, and so forth. What is the difference in the work they do? You say outside the 95 these people actually treat patients. This is the difference, treating patients, and doing work on medical research. You have 4,200 coming into your general hospitals. What do these consultants do?

Dr. MUSSER. They make rounds and——

Mr. GLEASON. What do you mean by "making rounds"?

Dr. MUSSER. They will join with the staff and visit patients.

Mr. BOLAND. And treat patients?

Dr. MUSSER. And treat patients. They will also conduct lectures.

Mr. BOLAND. The 95 in medical research do not do this at all?

Dr. MUSSER. No, sir. These are highly skilled technical advisers. Whenever we need expert advice and do not have it available in the Veterans' Administration we may pay a consultant for services he can render.

MEDICAL AND PROSTHETIC RESEARCH

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	17,227	19,615	20,779
	Positions other than permanent	1,006	1,036	1,097
	Other personnel compensation	76	220	155
	Total personnel compensation	18,309	20,871	22,031
12	Personnel benefits	1,322	1,499	1,591
21	Travel and transportation of persons:			
	Employees	284	304	323
	Beneficiaries	2	2	2
22	Transportation of things	39	47	51
23	Rent, communications, and utilities	162	106	176
24	Printing and reproduction	49	80	87
25	Other services	2,124	2,443	2,426
26	Supplies and materials	3,056	3,198	3,956
31	Equipment	3,588	5,372	6,069
32	Lands and structures	368	330	380
	Total costs	29,302	34,251	37,092
	Change in selected resources	533		
	Total obligations	29,836	34,251	37,092

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	2,871	3,155	3,357
Full-time equivalent of other positions	159	167	175
Average number of all employees	2,853	3,067	3,207
Employees in permanent positions, end of year	2,923	3,145	3,357
Employees in other positions, end of year	612	664	664
Average GS grade	7.1	7.1	7.0
Average GS salary	$6,535	$6,870	$6,885
Average salary of ungraded positions	$4,443	$4,443	$4,443

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs, funded:			
1. Medical research	24,318	27,389	29,404
2. Prosthetic research	1,029	1,161	1,239
Total operating costs, funded	25,347	28,549	30,643
Capital outlay:			
1. Medical research	3,936	5,677	6,413
2. Prosthetic research	20	25	36
Total capital outlay	3,956	5,702	6,449
Total program costs, funded	29,302	34,251	37,092
Changes in selected resources [1]	533		
Total obligations	29,836	34,251	37,092
Financing:			
Comparative transfers to or from other accounts	16	34	
Unobligated balance brought forward		−648	−105
Unobligated balance carried forward	648	105	
New obligational authority (appropriation)	30,500	33,742	36,987

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1962, $780,000 (1963 adjustments, −$27,000); 1963, $1,286,000; 1964, $1,286,000; 1965, $1,286,000.

Mr. THOMAS. Let us look at "Medical and prosthetic research." This is broken down on page 20–1. You show $35,817,000 for medical research and $1,275,000 for prosthetic research. The total of these two items is $37,092,000 but you will finance $105,000 of that from unobligated balance brought forward so you actually are requesting $36,987,000 for 1965. We will insert the table on page 20–1 in the record.

(The table follows:)

Medical and Prosthetic Research

Cost summary by object

	Fiscal year 1963 actual	Fiscal year 1964 estimated	1 less workday and calendar day	Public Law 87-793 and within grade increases	Program changes	Fiscal year 1965 estimated	Increase (+) or decrease (−) 1965 over 1964
Average employment:							
Medical research	2,8000	3,013			+138	3,151	+138
Prosthetic research	32	34			+2	36	+2
Total	2,832	3,047			+140	3,187	+140
Consultants	(33)	(35)			+(4)	(39)	+(4)
Average payroll cost	$6,932	$7,342	−$28	+$180	−$83	$7,411	+$69
Costs by activity:							
Medical research	28,253,856	33,065,658	−104,000	+540,000	+2,315,342	35,817,000	+2,751,342
Prosthetic research	1,048,597	1,185,641	−1,000	+9,000	+81,359	1,275,000	+89,359
Total	29,302,453	34,251,299	−105,000	+549,000	+2,396,701	37,092,000	+2,840,701
Costs by object:							
11 Personnel compensation	18,309,225	20,871,000	78,000	+512,000	+1,726,000	22,031,000	+1,160,000
12 Personnel benefits	1,322,339	1,499,000	−5,000	+37,000	+60,000	1,591,000	+92,000
21 Travel and transportation of persons	285,597	306,000	−2,000		+21,000	325,000	+19,000
Employee	(284,112)	(304,000)	−(2,000)		+(21,000)	(323,000)	+(19,000)
Beneficiary	(1,485)	(2,000)				(2,000)	
22 Transportation of things	39,188	47,000			+4,000	51,000	+4,000
23 Rent, communications, and utilities	161,659	106,000			+70,000	176,000	+70,000
24 Printing and reproduction	48,872	80,000			+7,000	87,000	+7,000
25 Other services	2,123,594	2,442,641	−7,000		−9,641	2,426,000	−16,641
26 Supplies and materials	3,056,421	3,197,601	−13,000		+771,399	3,956,000	+758,399
31 Equipment for existing facilities	3,204,912	3,544,000			+1,025,000	4,569,000	+1,025,000
Equipment for construction projects	382,943	1,828,057			−328,057	1,500,000	−328,057
32 Lands and structures	367,703	330,000			+50,000	380,000	+50,000
Total gross costs	29,302,453	34,251,299	−105,000	+549,000	+2,396,701	37,092,000	+2,840,701
Cost adjusted for other years	+533,111						
Total obligations	29,835,564	34,251,299	−105,000	+549,000	+2,396,701	37,092,000	+2,840,701
Unobligated balance brought forward	−15,863	−648,299			+543,299	−105,000	+543,299
Unobligated balance carried forward	+648,299	+105,000			−105,000		−105,000
Comparative transfer to other accounts	+32,000	+34,000			−34,000		−34,000
Total appropriation or estimate	30,500,000	33,742,000	−105,000	+549,000	+2,801,000	36,987,000	+3,245,000

Medical Research

Mr. Thomas. Turn to "Medical research" and insert page 20–4 in the record.

(The page follows:)

Medical Research

Employment and object summary

	Fiscal year 1963 actual	Fiscal year 1964 estimated	1 less workday and calendar day	Public Law 87-793 and within-grade increases	Program changes	Fiscal year 1965 estimated	Increase (+) or decrease (−) 1965 over 1964
Average employment	2,800	3,013			+138	3,151	+13
Consultants	(33)	(35)			+(3)	(38)	+(3)
Average payroll cost	$6,913	$7,325	−$27	+$179	−$84	$7,393	+$68
Average employment by activity:							
Medicine	903	943			+45	988	+45
Surgery	400	440			+19	459	+19
Psychiatry	328	356			+15	371	+15
Neurology	98	108			+5	113	+5
Aging	133	210			+19	229	+19
Pulmonary	219	227				227	
Radioisotope	402	437			+9	446	+9
Preclinical	295	269			+21	290	+21
Dental	22	23			+5	28	+5
Total	2,800	3,013			+138	3,151	+138

Cost by activity:							
Medicine	$9,481,783	$10,068,601	−$33,000	+$170,000	+$989,399	$11,195,000	+$1,126,399
Surgery	3,539,768	4,115,000	−14,000	+79,000	+314,000	4,494,000	+379,000
Psychiatry	3,169,353	3,551,000	−12,000	+63,000	+314,000	3,916,000	+365,000
Neurology	1,086,146	1,203,000	−4,000	+20,000	+95,000	1,314,000	+111,000
Aging	1,172,764	1,902,000	−7,000	+37,000	+183,000	2,115,000	+213,000
Pulmonary	2,015,020	2,025,000	−7,000	+40,000	+73,000	2,131,000	+106,000
Radioisotope	3,873,937	4,472,000	−16,000	+79,000	+198,000	4,733,000	+261,000
Preclinical	2,936,512	3,019,000	−10,000	+48,000	+372,000	3,429,000	+410,000
Dental	234,913	407,000	−1,000	+4,000	+80,000	490,000	+83,000
Minor alterations and improvement of facilities	360,717	475,000			+25,000	500,000	+25,000
Equipment for construction projects	382,943	1,828,057			−328,057	1,500,000	−328,057
Total	28,253,856	33,065,658	−104,000	+540,000	+2,315,342	35,817,000	+2,751,342
Costs by object:							
11 Personnel compensation	18,051,384	20,592,000	−77,000	+504,000	+708,000	21,727,000	+1,135,000
12 Personnel benefits	1,304,071	1,479,000	−5,000	+36,000	+59,000	1,569,000	+90,000
21 Travel and transportation of persons	273,822	290,000	−2,000		+20,000	308,000	+18,000
22 Transportation of things	38,892	46,000			+4,000	50,000	+4,000
23 Rent, communications, and utilities	160,099	102,000			+70,000	172,000	+70,000
24 Printing and reproduction	48,083	72,000			+4,000	76,000	+4,000
25 Other services	1,408,233	1,650,000	−7,000		−51,000	1,592,000	−58,000
26 Supplies and materials	3,033,270	3,157,601	−13,000		+765,399	3,910,000	+752,399
31 Equipment for existing facilities	3,185,356	3,519,000			+1,014,000	4,533,000	+1,014,000
Equipment for construction projects	382,943	1,828,057			−328,057	1,500,000	−328,057
32 Lands and structures	367,703	330,000			+50,000	380,000	+50,000
Total gross costs	28,253,856	[1] 33,065,658	−104,000	+540,000	+2,315,342	[2] 35,817,000	+2,751,342

[1] Includes $632,658 actual fiscal year 1963 unobligated balance planned for expenditure in fiscal year 1964.

[2] Includes $105,000 estimated fiscal year 1964 unobligated balance planned for expenditure in fiscal year 1965.

BEGINNING OF VA RESEARCH

Mr. THOMAS. When did you get started in your research, 10 or 11 years ago?

Dr. MUSSER. It started in 1946.

Mr. THOMAS. Was it that long ago? I thought it was 1953 or so. We had Professor Farber and four or five more distinguished professors in here and they really put it over. Later I will read from that hearing to refresh your memory.

RESEARCH EMPLOYMENT

Let us put this in the record: Your average employment was 2,800 in 1963, 3,013 in 1964, and you want to increase it by 138 to 3,151 in 1965.

You break it down by activities but I cannot follow it. In 1963 you had 903 in medicine and that goes up to 988 in 1965; in surgery you had 400 in 1963 and that goes up to 459; in psychiatry you had 328 in 1963, it jumps to 356 in 1964 and 15 more to 371 in 1965; in neurology you had 98 in 1963 and that goes up to 113, and so forth, aging, pulmonary, radioisotope, preclinical, and dental. The total in 1963 was 2,800 and it goes up to 3,151 in 1965.

RESEARCH COSTS BY OBJECT

In your costs by object, your personnel compensation in 1963 was $18,051,384 and it jumps to $21,721,000. The increase over 1964 is $1,135,000. Are you under the pay act or do you have a special law taking care of your doctors and dentists?

Mr. MONK. We have a special law.

Mr. THOMAS. How much was the increase?

Mr. MONK. The increase parallels the classified increase.

Mr. THOMAS. The same?

Mr. MONK. Yes, sir.

Mr. THOMAS. Plus, you have how many more employees than 1964?

Mr. MONK. 138.

Mr. THOMAS. Your travel and transportation of persons goes up to $308,000. Why are these researchers traveling so much? You had over $1 million travel going to school. Why are the researchers spending $308,000 for travel?

Then you have rent, communications, and utilities. That was $160,000 in 1963, and it jumps up to $172,000 in 1965.

Other services was $1.4 million in 1963. That goes up how much?

Mr. WISE. It drops $58,000.

Mr. THOMAS. Where is it in your justifications? Where is your table and narrative?

Mr. WISE. Page 20–18.

Mr. THOMAS. On page 20–17 is where I found a figure of $767,000 for additional personnel. You say:

> A net increase of $1,225,000 is required, comprised of increase of $540,000 for Public Law 87–793 and within-grade increases for existing staff; a decrease of $82,000 for the one less workday occurring in fiscal year 1965; an increase of $767,000 for the employment of 138 additional research personnel to augment research projects underway and undertake new studies. The increase of $1,225,000 includes $1,135,000 for personnel compensation and $90,000 for personnel benefits, respectively.

Where are your consultants?

Mr. WISE. Within this total there are three additional consultants.

Mr. THOMAS. Giving you a total of how many?

Mr. WISE. The description of the positions is on page 20–22.

Mr. THOMAS. Explain the increase for other objects. In object class 21 you have an increase of $18,000 to pay the travel expenses of employees recruited in scarce categories to their first duty station and travel expenses required in connection with new research studies to be undertaken.

In object classes 22, 23, 24, and 25, you have an aggregate net increase of $20,000 to provide for additional transportation, rental, communications, utilities, printing, and reproduction expenses related directly to the additional research studies to be undertaken.

In object class 26 you say [reading]:

An increase of $752,399 is required for the procurement of supplies and materials for new research studies; expansion of animal laboratory activities; and initial stocking of new research space made available by construction.

What are they? How many animal hospitals are you building? This is pretty unsatisfactory. What are the essential equipment items?

Well, if you are not interested why should we be interested? Maybe we should eliminate it all.

Mr. WISE. This page 20–22 gives a breakdown.

Mr. THOMAS. You have your consultants here of 33 and awhile ago you said you had 95.

Mr. WISE. Ninety-five referred to the number of actual individuals.

Mr. THOMAS. You have 33 here.

Mr. WISE. That is full time equivalent, that is measuring how often these 95 are used.

Mr. THOMAS. Where is your 95 figure set out?

Mr. WISE. Our estimate is for both body count and full time equivalent. It would be a great thing for Government if we could settle on full time equivalent.

Mr. THOMAS. Is it 95 or 33?

Mr. WISE. Ninety-five individuals.

Mr. THOMAS. Why do you not show the 95? Why do you have this 33? You show an increase of 3 for a total of 38.

Mr. WISE. These 95 individuals do not work every day.

Mr. THOMAS. Let us take this table at page 20–22; printing and reproduction, $76,000.

Under other services you have repairs to furniture and equipment, $250,000; maintenance and repair services, $116,000; other contractual services, $1,226,000.

Under supplies and materials you have office supplies, $125,000; drugs, medicines, and chemicals, $691,000. That goes up $122,000. For other medical and dental supplies, $1,974,000. That goes up $380,399. Operating supplies and materials, $1,002,000. That is up $202,000. Maintenance supplies and materials, $118,000. That is up $23,000. Your total suplies and materials is up $752,399.

Well, you still have not told us anything.

Mr. WISE. Mr. Chairman, there is $6,614,000 in the construction budget for new facilities. These are the operating moneys required to put these facilities to use.

Mr. THOMAS. You do not charge that under construction, fully equipping new buildings?

Mr. WISE. No, sir; that is in this appropriation.

Mr. THOMAS. Where is this procured?

Mr. WISE. Geographically, depending on the area where the new facility is constructed.

Mr. THOMAS. You do not have but two procurement stations, one in New Jersey and one in Hines. You closed the one in Los Angeles?

Mr. WISE. No, sir.

Mr. THOMAS. It is still there? The one in Los Angeles buys the equipment and the one in Hines buys food and the one in New Jersey, what do they buy?

Mr. WISE. There are some key items in each but many will stock other items to cut transportation costs.

RESEARCH IN AGING

Mr. BOLAND. On page 20–20 you have comparative extra—VA research costs. You have an increase of $61,500 for Brandeis University. What would this increase be attributable to?

Dr. MUSSER. Sir, that is a study of the remaining Spanish-American War veterans being conducted jointly by the Veterans' Administration, the University of Chicago, and Brandeis University. It is a research-in-aging project.

Mr. BOLAND. You have nothing for the University of Chicago this year?

Dr. MUSSER. I think the University of Chicago was in 1963.

Mr. BOLAND. How long has that particular program been running?

Dr. MUSSER. There was a preliminary study of the Spanish-American War veterans done 3 years ago at Boston. This created sufficient interest so this larger project was instituted. This new project is less than a year old.

Mr. BOLAND. How long will it run?

Dr. MUSSER. It will run for slightly less than 3 years.

Mr. BOLAND. What will be the total amount of money expended?

Dr. MUSSER. The total amount of money that will be expended will be $175,000.

Mr. BOLAND. Any questions on this?

SCIENCE INFORMATION EXCHANGE

Mr. OSTERTAG. I note in the table on page 20–20 that you estimated $65,000 for the National Science Foundation in 1964 but you do not anticipate any funds in 1965. What was this for?

Dr. MUSSER. You may recall the Sciences Information Exchange is more or less a clearinghouse of research information. As of last year the funds of that foundation were transferred to the National Science Foundation, and we had to pay our $65,000 as our contribution

to the support of the SIE. However, beginning in 1965, SIE will have its own budget and we will no longer be required to contribute to its support.

INCREASES IN RESEARCH COSTS

Mr. BOLAND. On page 20–16 you say [reading]:

The estimate of $35,817,000 for fiscal year 1965 expenditures contemplates an increase of $2,751,342 over the $33,065,658 amount planned for expenditure in fiscal year 1964. Total expenditures planned for fiscal year 1965 are comprised of $34,317,000 for operational research and $1,500,000 to provide object class 31 equipment for newly constructed research facilities. The latter item formerly (until fiscal year 1963) was financed from amounts appropriated under the "Construction of Hospital and Domiciliary Facilities" appropriation.

Put in all of page 20–16 and the table on page 20–17 indicating the hospitals in which this equipment will be installed.

(The pages follow:)

COST CHANGES—MEDICAL RESEARCH

The estimate of $35,817,000 for fiscal year 1965 expenditures contemplates an increase of $2,751,342 over the $33,065,658 amount planned for expenditure in fiscal year 1964. Total expenditures planned for fiscal year 1965 are comprised of $34,317,000 for operational research and $1,500,000 to provide object class 31 equipment for newly constructed research facilities. The latter item formerly (until fiscal year 1963) was financed from amounts appropriated under the "Construction of hospital and domiciliary facilities" appropriation.

In addition to amounts provided for the medical research program by direct appropriation, an amount of $7,971,000 was available in fiscal year 1963 in grants from the National Institutes of Health and from other organizations sponsoring research. It is anticipated that the same level of funding from these outside sources will be available in fiscal years 1964 and 1965. An indeterminate amount of support to the research program also is furnished from funds budgeted for hospital operations for such services as housekeeping, personnel, fiscal, and engineering at the hospital level. This estimate does not include funding of major research construction projects which are provided under the "Construction of hospitals and domiciliary facilities" appropriation.

Fiscal year 1965 operational research expenditures of $34,317,000 will provide moderate increases over fiscal year 1964 expenditures to permit addition of 138 new research employees. The increase also will cover Public Law 87–793 and within grade salary increases for existing staff and provide additional supplies, equipment, and other services to augment existing research studies and implement new studies. Efforts will be directed toward consolidating the gains of previous years and assuring that proper balance and normal growth continue in the program.

Beginning in the 1963 fiscal year, the medical and prosthetic research appropriation assumed payment for object class 31 equipment required in connection with all research space construction projects programmed in the fiscal year 1963 and subsequent year budget submissions. These include projects where research space is to be provided as part of major construction and alterations, hospital modernization and replacement, and additional hospitals. Subject to the availability of total fiscal years 1964 and 1965 medical research amounts reflected in this estimate, the Agency proposes to earmark funds sufficient to result in applied costs of $1,828,057 in fiscal year 1964 and $1,500,000 in fiscal year 1965 specifically for object class 31 equipment required for new research space provided under the construction program. If construction delays, changes in scope, or substitution of research projects occur, the earmarked operating appropriation "no year" funds will be retained exclusively for the above stated purpose with any savings applied to equipment requirements of future projects.

The fiscal year 1965 request of $1,500,000 for equipping newly constructed research facilities is comprised of the following:

Station	Construction of hospital and domiciliary facilities appropriation project No.	Estimate of initial object class 31 equipment cost
Albuquerque, N.M.	5112	$40,000
Ann Arbor, Mich.	5183-5189	40,000
Boston, Mass.	5251	300,000
Brooklyn, N.Y.	5640	20,000
Buffalo, N.Y.	5633	20,000
Kerrville, Tex.	5362	5,000
Lake City, Fla.	5238	30,000
Los Angeles, Calif.	5520	15,000
Louisville, Ky.	5178	20,000
Madison, Wis.	5209	60,000
Martinsburg, W. Va.	5136	15,000
Oklahoma City, Okla.	5126	200,000
Palo Alto, Calif.	5542	20,000
Pittsburgh, Pa.	5396	100,000
St. Louis, Mo.	5188	5,000
Seattle, Wash.	5182	325,000
San Francisco, Calif.	5507	250,000
Sepulveda, Calif.	5530	35,000

PROCUREMENT OF RESEARCH EQUIPMENT

Mr. THOMAS. How is that equipment procured? Is it procured by open competitive bid or negotiated bid?

Mr. MONK. It is either off the GSA schedule or on open competitive bid.

Mr. THOMAS. GSA will not stock most of this. It is scientific equipment.

Mr. MONK. Most of it we would buy by competitive bidding.

Mr. THOMAS. Does your own merchant prince buy it or how do you buy it? Common items like beds you buy yourself.

EXAMPLES OF VA RESEARCH PROJECTS

Mr. OSTERTAG. Mr. Chairman, may I say that I think it might be helpful to have for the record a brief summary of some of the achievements in the field of research, particularly in recent days. We have had this information in the past and I thing it might be well to have some indication on the record.

Mr. THOMAS. He sets out 25 or 30 paragraphs begining on page 20-6.

Mr. BOLAND. Put in the record pages 20-6 through 20-11.

(The pages follow:)

MEDICAL RESEARCH

The functions of the Veterans' Administration, Department of Medicine and Surgery include medical research as an integral part of the complete medical and hospital service provided for the care and treatment of veterans. Patient care, medical research, and education necessarily are interrelated and constitute the principal means of providing eligible veterans with high-quality medical care.

As presently consituted the Veterans' Administration system of hospitals and clinics makes available a unique and unparalleled resource for the advancement of medical science. Veterans' Adminisration staff recognize the obligation to use this source to its full capacity for better care of patients presently and in the future. By providing the opportunity to engage in research, the Veterans' Administration is enabled to attract and retain thoroughly competent physicians and

scientists; to provide an intellectual climate stimulating to all VA medical employees; to contribute to the development of new diagnostic and treatment procedures, and to remain in the forefront of developments in the field of medicine.

The following information about VA's medical research program will present an idea of the scope of activities in fiscal year 1963:

1. VA installations with research programs numbered 163 which included 148 hospitals either with or without outpatient clinics and 15 outpatient clinics not located in a hospital setting.

2. A total of 5,500 research investigators conducted 6,599 separate research projects.

3. These investigators had 2,490 articles published in professional and scientific journals, and of this number, 2,034 appeared in national publications.

4. Totals of 3.717 professional papers, 186 exhibits, and 135 motion pictures were presented by investigators before professional and scientific audiences.

Some examples of current VA medical research investigations which attest to the high caliber of the program are as follows:

1. Because the blood-forming tissues of the body are especially vulnerable to damage from exposure to nuclear fallout, measures for prevention and repair of damage to the tissues have become of great importance. Besides investigation of substances capable of stimulating production of new cells, much remains to be learned about the tissues themselves before such measures can be applied successfully. VA investigators are studying means for repacements of damaged cells, effects of storage in cell banks, characteristics of the cells on tissue culture, and mechanisms utilized in the transportation of nutritional elements, to name only a few of the tissue studies now in progress.

2. Kidneys, livers, and other organs can be transplanted from one person to another only when all components of the transplanted tissue are accepted by the recipient. Unless complete assimilation is possible, the unacceptable constituent may produce such undesirable responses as those induced by pollen in a hay fever sufferer up to the severe reactions of anaphylactic shock. These may be induced by any part of the organ itself or by the blood it contains. Human hemoglobin has many components, each with different immunologic characteristics. These must be separated and identified so that immunity can be established to any substance which proves offending as an important step toward the successful transplantation of organs. Investigation is proceeding along these lines in a number of research laboratories in VA hospitals.

3. A nuclear reactor in a VA installation has enabled investigators to analyze the elements in serum and other biologic fluids with a degree of accuracy unthinkable by other methods. Through neutron-activation analysis, exact amounts of trace elements in the circulation can be determined and followed in any change throughout the course of a disease. This makes possible identification of toxic substances on the one hand and of therapeutic approaches on the other to a variety of pathologic conditions.

4. Certain radioactive substances have been observed to concentrate in tumors of the intestinal tract and others to have an avidity for tumors by injection into the bloodstream. The latter substances are capable of emitting radiation, thus focusing their effect on the malignancy and sparing the normal body. Of equal importance, this makes possible the identification of malignant growth, offers a means of ready identification of cancerous areas, demonstrates their spread, and indicates to the surgeon the health or malignant involvement of questionable parts.

5. As growth and behavioral characteristics of cancer cells are learned, early detection becomes possible. Diagnosis during inception of cancer appears a logical probability and wholly new avenues to treatment are opened. A few examples of such characteristics follow:

(*a*) Metabolic substances labeled with radioisotopes are absorbed by the red blood cells of persons with certain types of cancers much more readily than the cells of normal people.

(*b*) One form of cancer causes gamma globulin to disappear. This renders the patients susceptible to infections which would be harmless in the presence of normal gamma globulin.

(*c*) Circulating hormones are greatly altered in amount in the presence of certain cancers.

(*d*) The many enzymes in the blood or tissues are altered by cancers of the lung in patterns so specific that the identification of types which are

otherwise indistinguishable becomes possible. Such precision may become of extreme importance as specific chemotherapies become available.

6. A VA investigator has perfected the technique of assay of insulin antagonist glucagon. This project is now being extended as a large-scale study of the genetic factors that predispose to diabetes in the Dallas, Tev., general population in cooperation with the Dalles Diabetes Association. As a result of the project, a much more accurate definition of persons who can be expected to develop diabetes during their lifetime becomes possible than afforded by any techniques hitherto available.

7. The cooperative study of antihypertensive agents has reached conclusive results in the simplest and most effective medication combination for reducing blood pressure in mild and moderate hypertensives. A new cooperative study has been designed to apply this therapy to large numbers of patients in an effort to answer the pressing question of whether blood pressure reduction in these hypertensives delays vascular aging and prolongs life.

8. The definite reversal of atherosclerosis through modification of the blood fat content in a colony of rabbits has been demonstrated.

9. A technique has been designed for objectively evaluating the efficacy of drugs used for angina pectoris. The first observation, completely unexpected, was that nitroglycerin which is traditionally the therapy for this disorder is of no greater benefit than placebo tablets.

10. Recognizing the importance of research on hormones, a pituitary bank was established by the Director of the Research Service to enable VA investigators to have an adequate supply of these critical substances. Seven thousand glands have been contributed by 57 hospitals to date. New methods of extraction have been devised which already have increased greatly the yield of several important hormones which will be used, among other purposes, in the correction of hormone balances altered from normal by cancer and other pathologic conditions.

11. The action of hormones is short lived. To obtain a prolonged effect, it previously was necessary to administer the substance repeatedly or to implant it in a pellet for a slow absorption. Attachment of a chemical radical to a hormone used in the treatment of prostatic malignancy, however, has made it possible through a single dose administered to young rats to induce high blood level of the hormone and maintain that level throughout their entire lives. The duration of the effect in persons has been found to vary with dosage and to be closely controllable for periods ranging from 3 to 6 months.

12. Assays of other hormones present in exceedingly small amounts in human serum have been made possible by newly devised techniques. Three new adrenal hormones from the adrenal gland have been identified through a new technique for separating them which was developed by a VA investigator.

13. Estrogen determinations have required such large amounts of blood that they have been nearly impossible to make during physiologic states which are not accompanied by unusually high levels. With a sensitive method recently developed, estrogen can be determined in men or even in women during menstruation when the level is at its ebb. The technique is expected to permit accurate following of estrogen levels in a wide variety of clinical disorders. Similarly the hormones in plasma can be identified by a method which is making it possible to observe such slight changes in their levels that they can be followed during the course of an acute disease. Such minute observation permits precise knowledge of the degree and area of disruption of these circulating substances and points the direction to be taken for reestablishment of the normal balance. For example, there is a progressive decrease in the utilization of one adrenal hormone as aging takes place which indicates that benefit can be expected by replacing the loss of this regulator of body function.

14. Thyroid preparations, effective in a number of clinical disorders, can now be assayed by a new chemical method which permits closer quality control of the product.

15. Patients with both pulmonary emphysema and peptic ulcer have been found to have abnormally great excretion of hormones from the cortex of the adrenal gland. A cause and effect relationship is suggested which may lead to therapy for these widely prevalent conditions.

16. Vaccines against staphylococcal infection are being improved through discovery of potent activity of the surface of staphylococcal cells. These vaccines are being used in previously intractable cases of osteomyelitis, a chronic infection of bones now increasingly resistant to antibiotics.

17. An injection of toxoid 19 years after the initial series has been shown to restore the earlier level of resistance to tetanus.

18. A tropical disease caused by a minute worm is believed to be afflicting 30 million people in the world, and 15 percent of the Puerto Ricans in New York, Philadelphia, and Chicago. Diagnosis has required a time-consuming study of the eggs of the parasite in either the stool or biopsied rectal tissue, but this technique is now being replaced by a highly reliable blood test developed by a VA physician.

19. Fertilizer composed of starling guano has been studied as a cause of histoplasmosis, a lung disease resembling tuberculosis. This provides one of the first clues to the heretofore unknown means of dissemination of this widespread disease. Blood tests for this disease have been markedly improved both in sensitivity and in specificity increasing the accuracy of screening measures and diagnostic techniques.

20. A chemical, well known as being capable of inducing hallucinations, has been discovered to be regularly present in the circulating blood of patients with certain types of malignancies.

21. There appears to be a difference in response to stain between the white blood cell lymphocytes in blood from schizophrenics and those from normal persons. This suggests the pathologic condition has accompanying body changes which may render it diagnosable by physical means and offers another approach to early diagnosis and assaying effects of treatment.

22. It is possible to obtain distinctive magnetic patterns for a number of the tranquilizing drugs recovered from the urine of the patients under treatment. Through improvements in precision of analytic techniques, the specific drug can be identified and the amount ingested determined.

23. Ingestion of alcohol has been shown to cause an excretion of magnesium in the urine. This suggests a pharmacologic approach to alcoholism through replacement therapy of this calming element.

24. An instrument has been developed for locating the conduction system in the heart. It is being used in most surgical centers where open heart surgery is performed, preventing inadvertent surgical damage to unseen nerves because of any inability to identify their presence.

25. A method of rapidly measuring the amounts of oxygen, anesthetic gases, nitrogen and carbon dioxide in the blood and fluids has been developed making it possible to follow changes in these gases during diagnostic and therapeutic procedures, and guard against dangerous levels.

26. A number of granulated, dried tissues are being used successfully as protheses for the repair of eardrums.

27. During studies on effects of magnetic fields on growth, it was observed that direction of flow of the brain's electrical current was reversed during anesthesia. Applying these observations, it has been made possible to increase or diminish the functional level of brain activity at will by altering intensity of an externally generated magnetic field.

28. The virus-causing measles in man and the one causing distemper in dogs have been shown to be related, and possibly to be a single virus capable of inducing either disease depending upon the species of its host.

Mr. BOLAND. What is the total amount we have spent since VA has been in medical research? It started with about $10 million. You must have spent around $175 million in medical research. We would like to have some specific or particular accomplishments you can point to with pride. And $175 million is a lot of money. Since 1955, since I have been sitting here, I think it is in that neighborhood.

Mr. WISE. In the TB hospitals we saved over $100 million in new hospitals in that area alone.

Mr. THOMAS. How can you take credit for that?

Mr. BOLAND. How did you do it?

MENTAL RESEARCH

Mr. THOMAS. When you got in the research business, you brought in here some of the great professors from the best medical colleges. I remember Professor Farber of the Harvard Medical College. And you had a Dr. Kline from New York, a very distinguished gentleman. And who was that distinguished gentleman from Duke Medical Col-

lege in North Carolina, Dr. Sanger, probably one of the leaders in biology, was it not? And we have done less than anybody, I presume, in mental research, accomplished less, to say the least, and one of the key selling points in getting in the research business was that you had the patients and you had the records and you were going to do wonders. That was reiterated and reiterated and reiterated and I find from your own research program that is already in the record you have perhaps in the biggest field the smallest number of doctors working on it. In medicine you have 903; in surgery you have 400; in neurology, 328.

Dr. Kline was selling the program. He was a great advocate. This is in the hearings of calendar year 1959 [reading]:

Dr. KLINE. The only way we are going to reduce the economic burden of caring for the veterans—

he was talking about neurology—

and this constitutes 50 percent of your cases, is through research. There is no industry in the country that could keep alive with less than 5 percent of their budget going for research.

Well, I imagine a whole lot of industries in this country have less than that in their budget for research. [Continuing reading:]

We are not utilizing the potentialities that we have. The Veterans' Administration has done a good job but a very limited one to date.

That is still true. [Continuing reading:]

They have attracted a few good men and have done a few very promising studies. The possibility of cutting back at this point is disastrous. The morale which has been built up would be completely destroyed by a reduction in the research budget.

What was the figure that was being proposed for that year? As I recall, it was $15 million. Now listen to this:

We (meaning VA) have the patients that no one else has, and we have problems that no one else has in terms of how much it costs. It is my desire as well as yours to go into this project and I do not think we would need to spend the tremendous amount we spend for hospital and neuropsychiatric patients if research were furthered. I would like to run a race with my friend, Dr. Farber here.

That is the eminent and great Dr. Farber who perhaps is the leading world researcher in cancer. [Continuing reading:]

I think the breakthroughs in the area of mental diseases are as close or closer than they are in the field of malignancy.

I doubt many people will agree with him there. Then I say—

Stop right there. You can't beat what you have already said.

That is just a sample of it. We could go back years prior to that. What became of all that effort you were going to make in your psychiatric research? You went in the research business largely through that door and you have done less in that field than perhaps any other.

CANCER RESEARCH

You set out your accomplishments. You are even going in competition with Dr. Farber. On page 20–7 you set out under your paragraph 5 [reading:]

As growth and behavioral characteristics of cancer cells are learned, early detection becomes possible.

That is pretty broad and loose. You are not taking credit for detecting them are you?

Dr. McNinch. I do not think anybody could take complete credit for anything.

Mr. Thomas (reading):

Diagnosis during inception of cancer appears a logical probability and wholly new avenues to treatment are opened.

Have we discovered anything along that line? Professor Farber says we have 20,000 pieces of basic research and he is positive that the answer to the whole malignancy problem is in the work that has already been done and all you have to do is find it, and he thinks it could come tonight or tomorrow night or Saturday night, but he is very positive you have the answer in the work that has already been done. Off the record.

(Discussion off the record.)

Mr. Ostertag. We have placed pages 20–6 to 20–11 in the record. I think these pages of the justification fairly clearly answer the question I raised as to what you have done in this field or what you have accomplished. Is that correct?

Dr. McNinch. I would like to make this comment: Rarely in medical research do you have a dramatic achievement such as the discovery of insulin or the discovery of cortisone. Most medical research develops little bits that eventually get together and have meaning.

RESEARCH ADVISORY COMMITTEE

Mr. Boland. Who helps you set up your research programs? Do you consult with Dr. Farber and other individuals and institutions?

Dr. Musser. Yes. We have a formal advisory committee and I think we enjoy fine relationship with the outstanding scientists of the country, of which Dr. Farber is one. We can turn to them at any time.

COORDINATION OF RESEARCH EFFORT

Mr. Ostertag. In view of the fact the Veterans' Administration has one of the largest medical organizations in the world, it lends itself to an up-and-coming medical research program. I do not believe anyone quarrels with the need or the desirability of the program. But we must bear in mind that the Government of the United States is spending many millions of dollars in medical research each year, and that public and private funds are also going into this vast area of research. I am just wondering to what extent your activities are coordinated with those of other institutions and agencies. In other words, are we duplicating? Are we all trying to find the same answer to the same thing?

Dr. Musser. I do not believe so. I would like to tell you how we operate in terms of coordination. There is a VA member on every NIH study section and council. In this way we hear what is going on in NIH. We then have a basis for comparison of our own activities with theirs.

Furthermore, we have a continuing file of our own research activities and they are reviewed so that where there is duplication we can get our people to coordinate their activities rather than duplicate them, and in the last several years we have made a great effort to

accomplish these things. I think more can be done along that line. But one thing we have learned is that while two doctors may be working in research in one field, each is working on a somewhat different question and the results of the several projects may make a greater contribution to one disease than a single project.

RESEARCH IN PSYCHIATRY

If I may, I would like to give some figures I have in regard to the psychiatric accomplishments. I think this is an interesting segment. Much has been made of the accomplishments in the field of TB, and I think it has been a salutary accomplishment. On the other hand, we have done a major amount of work on the effectiveness of various tranquilizing drugs in psychiatric disorder.

In 1954, before these drugs became popular, we had 50,128 psychiatric beds in the Veterans' Administration and we admitted 29,190 patients and discharged 21,120.

In 1963, after we had learned how these drugs worked and understood the patients for which they were best suited, we found there were 59,021 beds in VA hospitals for psychiatric patients. We were able to admit 51,304 patients and discharged 53,435 patients, which is almost twice the number of admissions and discharges in 1954.

I have not tried to place a dollar value on this but in terms of taking care of more patients and more rapidly discharging patients so they could live active lives in their communities, this alone has been a major achievement.

Mr. OSTERTAG. You attribute that mostly to drugs?

Dr. MUSSER. Drugs and other care. There are other things besides drugs that help restore them.

Mr. BOLAND. How many of the 53,435 that were discharged were readmitted?

Dr. MUSSER. That I cannot tell you.

Mr. BOLAND. Is that not a pretty good figure to have? You say there were 53,435 in 1955 released and returned to society. How many of the 53,435 came back in the next 5 years or so?

Dr. MUSSER. I would assume a fair number.

Mr. BOLAND. Maybe 50,000?

Dr. MUSSER. I could get that figure. The important thing is they were able to be back in civilian life.

Mr. THOMAS. Is it not generally understood the medical profession does not know any more today than it did 150 years ago as to the why and wherefore and the cause of mental disturbances? Where is the basic research being done along that line, going to the root of the whys and wherefores? The medical profession does not know any more now than it did 150 years ago in this field. I think that is an accepted fact.

Dr. MCNINCH. If this is true, I think it is an indication there are many problems in medicine that are extremely difficult to determine.

Mr. THOMAS. That is right; but what has the medical profession done about the basic causes?

Mr. OSTERTAG. May I just add to what the chairman has said, is it not basic and fundamental in matters of research that you must find the cause in order to achieve a cure?

Dr. McNinch. Yes; I think that is true, but it does not make it easier to find the cause. And mental diseases is not the only area where it is difficult to find the cause. Infectious hepatitis has for years been an area where research has been going on to find the cause.

Mr. Thomas. The NIH has a tremendous section doing purely basic research in the field of mental activities. What is the generally accepted result of their activities in basic research—not treatment—in the field of mental disturbances?

Dr. Musser. I think we are making a great deal of progress. We are learning much about the fundamental mechanism of nutrition of the brain and the chemical reactions in the brain. You have heard of drugs that cause hallucinations. I might point out some other areas where we have work going on. You are aware of the fact that a fair number of psychiatric disturbances we treat are in the elderly individuals where there is considerable hardening of arteries. We have research going in hardening of the arteries now, how it can be prevented, and what the factors are that cause it to be so much more prominent in one person than in another. We have found—and this is of considerable importance—that in the blood of some people there are substances that, when injected in animals or other individuals, cause them to have certain types of mental changes.

Mr. Thomas. Is it not an accepted fact among the brain people that certain types of insanity are inheritable?

Dr. Musser. No, sir. What is acquired and what is inherited is a question.

Mr. Thomas. It is not an accepted fact?

Dr. Musser. No. There are two schools of thought. We have a young woman scientist who has found changes in the capillaries of the nail beds of certain schizophrenic patients, and from this one might assume a genetic influence in some types of schizophrenia.

Mr. Thomas. You are going back to inheritance, are you not?

Dr. Musser. Yes. But we have a scientist on the west coast who received a national award because of a new concept in schizophrenia that would indicate it is an acquired disease. There are two schools of thought, and someday this might level off and it might well be instead of schizophrenia being one disease, it will turn out to be a group of diseases. But we are getting closer to the answer.

Mr. Boland. Any more questions on this section?

Prosthetic Research

Page 20–23, prosthetic research. You had $1,185,641 in 1964, and you are asking for $1,275,000 for 1965, an increase of $89,359.

You have an increase of $48,000 in intra-VA research and an increase of $41,359 in contract research.

This is a program with which we are pretty familiar and on which we compliment the Veterans' Administration. I think they have done perhaps the most outstanding job of any research in this field in the United States.

We will put page 20–23 in the record.

(The page follows:)

Prosthetic Research

Employment and object summary

	Fiscal year 1963 actual	Fiscal year 1964 estimated	1 less workday and calendar day	Public Law 87-793 and within-grade increases	Program changes			Fiscal year 1965 estimated	Increase (+) or decrease (−) 1965 over 1964
					Artificial limbs, braces, and wheelchairs	Aids for the blind	Aids for the hard of hearing		
Average employment	32	34			+2			36	+2
Consultants					(+1)			(1)	(+1)
Average payroll cost	$8,628	$8,794	−$29	+$264	+$27			$9,056	+$262
Costs by activity:									
Intra-VA research	360,520	395,000	−1,000	+9,000	+37,000	+$2,000	+$1,000	443,000	+48,000
Contract research	688,077	790,641			+27,000	+10,359	+4,000	832,000	+41,359
Total	1,048,597	1,185,641	−1,000	+9,000	+64,000	+12,359	+5,000	1,275,000	+89,359
Costs by object:									
11 Personnel compensation	257,841	279,000	−1,000	+8,000	+18,000			304,000	+25,000
12 Personnel benefits	18,268	20,000		+1,000	+1,000			22,000	+2,000
21 Travel and transportation of persons	11,775	16,000			+1,000			17,000	+1,000
Employee	(10,290)	(14,000)			(+1,000)			(15,000)	(+1,000)
Beneficiary	(1,485)	(2,000						(2,000)	
22 Transportation of things	296	1,000						1,000	
23 Rent, communications, and utilities	1,560	4,000						4,000	
24 Printing and reproduction	789	8,000			+3,000			11,000	+3,000
25 Other services	715,361	792,641			+27,000	+10,359	+4,000	834,000	+41,359
26 Supplies and materials	23,151	40,000			+5,000	+1,000		46,000	+6,000
31 Equipment	19,556	25,000			+9,000	+1,000	+1,000	36,000	+11,000
Total gross costs	1,048,597	[1] 1,185,641	−1,000	+9,000	+64,000	+12,359	+5,000	1,275,000	+89,359

[1] Includes $15,641 in fiscal year 1963 unobligated balance planned for expenditure in fiscal year 1964.

Mr. BOLAND. What is the increase of $48,000 in intra-VA research for? Where does that go?

Dr. TIMM. That is one consultant and one additional employee in the research center in New York.

Mr. BOLAND. How many employees do you have in the research center in New York?

Dr. TIMM. I do not have the exact figure.

Mr. BOLAND. Are you looking at the figure of 32 on page 20–22? Are these consultants or are they people that run the facility in New York? How many people are actually working in the New York facility?

Dr. TIMM. Thirty-two.

Mr. BOLAND. Do you call them consultants?

Dr. TIMM. No, sir.

Mr. WISE. The consultant position over here shows there is one consultant.

Mr. BOLAND. That is right. These tables are hard to follow.

CONTRACTUAL PROSTHETIC RESEARCH

How about the additional $49,000 for contract research? Where does it go?

Mr. WISE. There is a list starting on page 20–29 and goes on for a number of pages over to 20–36, which sets out each contract for the years 1964 and 1965.

Mr. BOLAND. There is some interesting narrative material on these proposed contractors and present contractors in this area.

It is a long list but it is interesting. What do you think, Mr. Ostertag, should this be in the record?

Mr. OSTERTAG. All right.

(The material referred to follows:)

PROSTHETIC RESEARCH

Extra-VA prosthetics research and development contractual research

Category	Proposed contractor	Estimated, fiscal year—	
		1964	1965
ARTIFICIAL LIMBS			
Fundamental research on locomotion; design and developmental research; energy expenditures by geriatric amputees.	University of California (Berkeley and San Francisco Biomechanics Laboratory).	$70,000	$70,000
Investigation of control of artificial limbs, including auxiliary power and substitution for senses of touch and position.	University of California (Los Angeles Bio-Technology Laboratory).	30,000	50,000
Refinements of hydraulic knees and maintenance of test models; exploration of simple hydraulic knee for control by very short below-knee stump or by cineplasty tunnel or muscle bulge; increased attention to development of hydraulic ankle; hydrogen peroxide system for auxiliary power for limbs, braces, or wheelchairs.	Mauch Laboratories, Inc....	70,000	70,000
Correlation of nationwide cooperative program of research and of dissemination of results; publications; conferences; advisory services; clinical feedback of results on devices emerging from the research program.	National Academy of Sciences.	80,000	85,000
Evaluation of prosthetic devices, components, and techniques, emphasizing bioengineering with prosthetics support.	New York University.....	63,641	63,641

PROSTHETIC RESEARCH—Continued

Extra-VA prosthetics research and development contractual research—Continued

Category	Proposed contractor	Estimated, fiscal year—	
		1964	1965
ARTIFICAL LIMBS—Continued			
Clinical studies of problem cases, especially geriatrics: stump definition including recording of stump changes; development of techniques or prototype devices for problem cases.	Northwestern University	$85,000	$87,000
Fundamental studies toward skeletal attachment of prosthesis.	John O. Esslinger, M.D.	10,000	10,000
Development of improved items for the upper-extremity armamentarium, particularly elbow locks.	Gilmatic, Inc.	50,000	50,000
Physiological studies to improve neurophysiological control of prosthesis, underlying improved methods of training.	To be selected	12,000	----------
Total, artificial limbs		470,641	485,641
BRACES			
Evaluation of orthopedic devices newly developed or used in existing practice, especially lower extremity devices for hemiplegia or other conditions involving spasticity.	Baylor University and Texas Rehabilitation Institute.	10,000	10,000
Fundamental studies of knee and hip; development of orthotic devices; investigation of prescription principles for lower extremity orthotic devices, with special attention to knee joints.	University of California (San Francisco Biomechanics Laboratory).	50,000	50,000
Development and evaluation of brace or orthopedic shoe for shortening of 1 leg compared to the other embodying SACH foot principles.	To be selected	1,000	1,000
Control of auxiliary power for bracing	UCLA in cooperation with Rancho Los Amigos.	2,000	2,000
Correlation of nationwide cooperative program of research and dissemination of results; publications; advice and services.	National Academy of Sciences.	5,000	17,000
Total, braces		68,000	80,000
AIDS FOR THE BLINDED			
GUIDANCE DEVICES			
Completion of independent evaluation of Haverford-Bionic Instruments obstacle detector; refinement of training methods; recommendations for further improvements.	Tracor, Inc.	6,000	----------
Development of ultraminiatruized obstacle detector suitable for mounting on a long cane to detect obstacles above the cane handle likely to strike a blind person between the waist and top of head.	Airborne Instruments, Inc.	10,000	15,000
Fundamental studies of obstacle detection based on sonic principles, ultimately for mounting on cane, particularly for warning of objects further than 1 cane length away and for detection of obstacles above the waist.	Lockheed-California Co.	10,000	10,000
Improvement of up-curb and down-curb detector; miniaturization; integration with obstacle detector; bench tests of curb detector.	Bionic Instruments, Inc.	11,000	12,000
Practical trials of pattern detectors using ambient light, for detecting edges and especially curbs based on stereoscopic principle.	BioDynamics, Inc.	4,000	----------
Coursekeeper or device to enable a blind person to follow a straight path; evaluation of portable radio receiver working at null position for this purpose.	Pennsylvania Association for the Blind.	2,000	3,000
Optical triangulation detector, functioning somewhat like a cane but with a beam of light; careful fundamental studies and user evaluation of existing device.	Opti-Guide, Inc.	----------	2,000
Improvements in method for teaching cues available to a blind person for navigation through relatively unfamiliar environment, including development of improved tactile maps.	Catholic Guild for the Blind.	10,000	10,000
Subtotal, guidance devices		53,000	52,000

PROSTHETIC RESEARCH—Continued

Extra-V A prosthetics research and development contractual research—Continued

Category	Proposed contractor	Estimated, fiscal year— 1964	1965
READING MACHINES AND OPTICAL AIDS			
Assistance to other organizations conducting clinical application studies; maintaining devices in clinical application studies.	Battelle Memorial Institute	$5,000	----------
Partial support of clinical application studies on Battelle aural reading device.	To be selected from agencies having qualified instructors.	10,000	----------
Transducers for tactile outputs for optophonetype reading device or Visotactor.	Stanford Research Institute	5,000	----------
Evaluation of tactile output for direct-translating device.	New York Medical College	----------	$3,000
Intermediate personal-type reading machine with spelled-speech output; improved output device; improved mechanical tracking; refinement of methods permitting recognition of a wide variety of type fonts.	Mauch Laboratories, Inc.	70,000	71,000
Construction of improved Mauch synthesizers to produce Metfessel "spelled speech" from Teletypesetter tape or directly from recognition teaching machines.	do	----------	5,000
Alternative design of synthesizer based on magnetic typewriter principle.	Metfessel Laboratories, Inc.	6,000	12,000
Evaluation of user acceptance of Metfessel "spelled speech" produced from TTS tapes.	Cleveland Society for the Blind.	----------	3,000
Extension and refinement of "spelled speech," teaching machine and programs for teaching blind subjects.	Metfessel Laboratories, Inc.	10,000	----------
Studies of linguistic problems of Haskins word dictionary, involving evaluation of output of present machine with 7,000 word dictionary and simulation of output from equivalent machines of larger or smaller dictionary capacities; investigation of "fluid" section of dictionary for specialized vocabulary.	Haskins Laboratories, Inc., with agency for the blind, such as Brooklyn Industrial Home for the Blind.	5,000	----------
Fundamental studies of rules for synthesizing speech; continued use of small computer to follow rules; fundamental information for other contractors; initiating of translation of letters (graphenes) to phonemes; exploration of hybrid systems combining dictionary and synthesizer; continued thought on possibility of reading devices with "speech like" output from certain characteristics of letter shape.	Haskins Laboratories, Inc.	25,000	36,359
Evalution of Visagraph for producing tactile outputs corresponding to graphs, wiring diagrams, maps, and similar nonverbal information.	Manhattan College	2,000	----------
Exploration of Scherertz plan for transmitting facsimile over telephone to sighted operator.	Telephone Pioneers and Bell Laboratories.	----------	3,000
Pocket notetaking device for blind	Stanford Research Institute	----------	5,000
Converter of teletypesetter tape to grade I braille	Systematics, Inc	----------	6,000
Magnifiers and high-powered spectacles for partially sighted individuals, with particular attention to problems of geriatric amputees with visual defects, including loss of accommodation.	Miami University, Ohio State University, or Indiana University.	----------	5,000
Subtotal, reading machines and optical aids		138,000	149,359
Total, aids for the blinded		191,000	201,359
AIDS FOR THE HARD OF HEARING			
Interaction of hearing aids (binural or monaural) with various types of hearing loss, with special reference to nerve loss.	Northwestern University	35,000	35,000
Relationships of physical properties of hearing aids and their changes during use, particularly transient response, to acceptance of aid and to user preference for aids.	Houston Speech and Hearing Center.	12,000	13,000
Investigation of possibility of high frequency aids for blind individuals presently unable to detect obstacles by echo location; development of special aids.	Knowles Electronics Laboratories with Northwestern University.	14,000	17,000
Total, aids for the hard of hearing		61,000	65,000
Total contractual research		790,641	832,000

Medical Care

Object classification

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Personnel compensation:			
Permanent positions	708,975	734,603	761,610
Positions other than permanent	35,273	36,948	38,413
Other personnel compensation	14,756	21,494	18,651
Total personnel compensation	759,004	793,045	818,674
Direct costs:			
11 Personnel compensation	754,874	788,507	813,980
12 Personnel benefits	56,618	59,137	61,677
21 Travel and transportation of persons	8,730	8,750	8,730
Employee travel	752	783	781
22 Transportation of things	1,882	1,925	1,931
23 Rent, communications, and utilities	18,699	19,712	20,730
24 Printing and reproduction	1,009	961	957
25 Other services	15,044	14,500	20,508
Contract hospitalization	16,084	16,761	16,679
Medical and dental fees	10,214	10,294	10,506
26 Supplies and materials	88,852	90,709	92,271
Provisions	45,508	45,370	45,307
31 Equipment	18,176	21,179	20,938
32 Lands and structures	3,200	2,503	2,482
41 Grants, subsidies, and contributions	7,378	7,481	7,461
Subtotal	1,047,021	1,088,572	1,124,938
Deduct quarters and subsistence charges	8,477	8,562	9,003
Total direct costs	1,038,544	1,080,010	1,115,935
Reimbursable costs:			
11 Personnel compensation	4,130	4,538	4,694
12 Personnel benefits	310	340	352
25 Other services	83	93	96
26 Supplies and materials	386	415	423
Provisions	225	235	235
Total reimbursable costs	5,134	5,621	5,800
Total program costs	1,043,677	1,085,631	1,121,735
Change in selected resources	7,231		
Total obligations	1,050,908	1,085,631	1,121,735

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	127,043	126,990	127,720
Full-time equivalent of other positions	5,468	5,611	5,744
Average number of all employees	131,883	131,877	132,895
Employees in permanent positions, end of year	123,972	124,349	125,392
Employees in other positions, end of year	20,039	20,212	20,208
Average GS grade	4.8	4.8	4.8
Average GS salary	$5,295	$5,526	$5,567
Average salary, grades established by 38 U.S.C. 73	$8,956	$9,586	$9,668
Average salary of ungraded positions	$4,587	$4,627	$4,803

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Direct operating costs:			
1. Maintenance and operation of hospitals:			
(a) Neuropsychiatric hospitals	283,301	295,531	307,768
(b) General hospitals	557,230	577,228	597,622
2. Contract hospitalization:			
(a) Civil hospitals	5,581	5,612	5,596
(b) Municipal and State hospitals	1,590	1,563	1,562
(c) Federal hospitals	8,913	9,586	9,521
3. Maintenance and operation of domiciliary facilities:			
(a) Veterans' Administration homes	29,766	30,546	32,018
(b) State homes	7,378	7,481	7,461
4. Outpatient care	123,408	128,781	130,967
Total direct operating costs, funded	1,017,167	1,056,328	1,092,515
Direct capital outlay:			
1. Maintenance and operation of hospitals:			
(a) Neuropsychiatric hospitals	5,725	5,282	5,556
(b) General hospitals	13,950	15,938	16,573
3. Maintenance and operation of domiciliary facilities			
(a) Veterans' Administration homes	709	1,092	724
4. Outpatient care	992	1,370	567
Total direct capital outlay	21,377	23,682	23,420
Total direct program costs, funded	1,038,544	1,080,010	1,115,935
Reimbursable program:			
1. Maintenance and operation of hospitals (b) General hospitals	4,892	5,356	5,515
4. Outpatient care	242	265	285
Total reimbursable program costs	5,134	5,621	5,800
Total program costs, funded	1,043,677	1,085,631	1,121,735
Change in selected resources [1]	7,231		
Total obligations	1,050,098	1,085,631	1,121,735
Financing:			
Comparative transfer to other accounts	1,426	1,160	
Advances and reimbursements from—			
Other accounts	−3,791	−4,301	−4,480
Non-Federal sources (38 U.S.C. 611)	−1,342	−1,320	−1,320
Unobligated balance lapsing	941		
New obligational authority	1,048,142	1,081,170	1,115,935
New obligational authority:			
Appropriation	1,048,172	1,081,186	1,115,935
Transferred to "Operating expenses, Public Buildings Service," General Services Administration (76 Stat. 728 and 77 Stat. 436)	−30	−16	
Appropriation (adjusted)	1,048,142	1,081,170	1,115,935

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1962. $1,561,000 (1963 adjustments, −$34,000); 1963, $8,758,000; 1964, $8,758,000; 1965, $8,758,000.

Mr. BOLAND. Let us turn to medical care and put pages 21–1, 21–4, 21–5, and 21–6 in the record.

(The pages follow:)

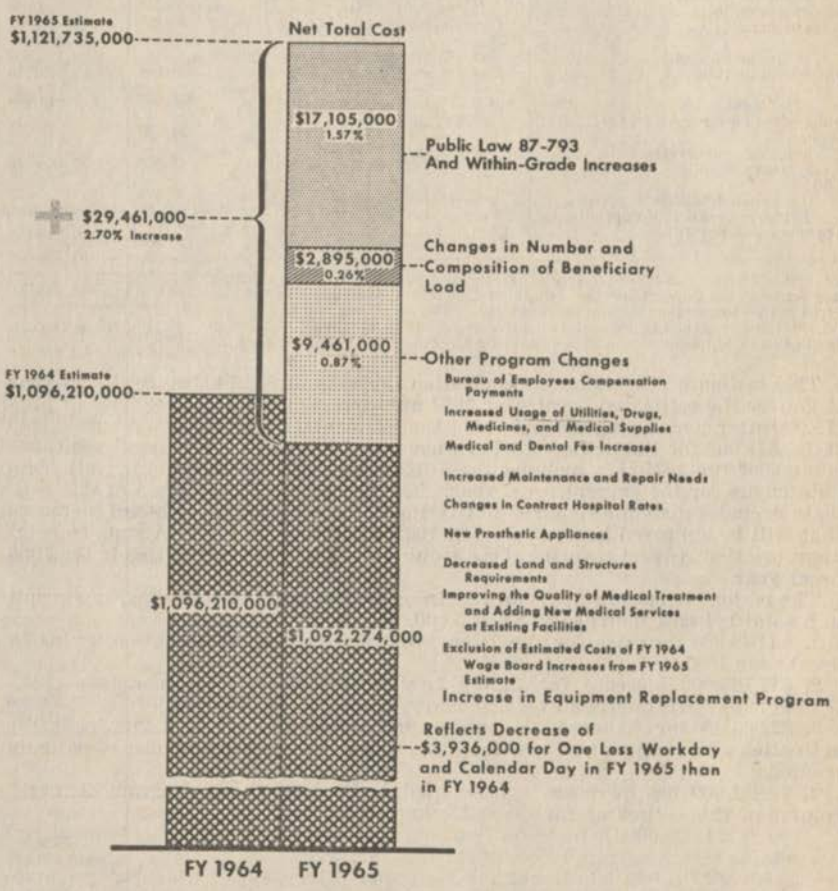
MEDICAL CARE

Employment, workload, and object summary

	Fiscal year 1963, actual	Fiscal year 1964, estimated	Fiscal year 1965, estimated	Increase (+) or decrease (−) 1965 over 1964
Average employment:				
Inpatient activities	119,499	119,268	120,201	+933
Outpatient activities	10,853	11,067	11,132	+65
Total	130,352	130,335	131,333	+998
Average payroll cost	$6,259	$6,622	$6,706	$84
Workloads:				
Inpatient:				
Average daily beneficiary load	137,867	137,664	137,622	−42
Number of patients treated, VA hospitals	712,937	720,000	730,000	+10,000
Outpatient:				
Medical visits	5,900,554	5,979,000	6,011,800	+32,800
Dental examination cases completed	40,729	41,000	40,985	−15
Dental treatment cases completed	48,903	49,600	49,572	−28
Net costs:				
Inpatient activities	$919,035,517	$965,784,000	$989,916,000	+$24,132,000
Outpatient activities	124,641,968	130,426,000	131,819,000	+1,393,000
Total	1,043,677,485	1,096,210,000	1,121,735,000	+25,525,000
Cost by Object:				
11 Personnel compensation	759,003,908	802,883,000	818,674,000	+15,791,000
12 Personnel benefits	56,927,861	60,218,000	62,029,000	+1,811,000
21 Travel and transportation of persons	9,482,441	9,533,000	9,511,000	−22,000
Employee	(751,573)	(783,000)	(781,000)	−(2,000)
All other	(8,730,868)	(8,750,000)	(8,730,000)	−(20,000)
22 Transportation of things	1,882,400	1,925,000	1,931,000	+6,000
23 Rent, communications, and utilities	18,698,941	19,712,000	20,730,000	+1,018,000
24 Printing and reproduction	1,008,565	961,000	957,000	−4,000
25 Other services	41,424,724	41,648,000	47,789,000	+6,141,000
(Contract hospitalization)	(16,084,442)	(16,761,000)	(16,679,000)	−(82,000)
(Medical and dental fees)	(10,214,031)	(10,294,000)	(10,506,000)	+(212,000)
26 Supplies and materials	134,970,704	135,729,000	138,236,000	+1,507,000
31 Equipment	18,176,370	21,179,000	20,938,000	−241,000
Replacement equipment	(14,483,644)	(17,589,000)	(17,910,000)	+(321,000)
Initial equipment for new facilities	(206,095)	(1,540,000)	(1,540,000)	
Initial equipment for existing facilities	(3,486,631)	(2,050,000)	(1,488,000)	−(562,000)
32 Lands and structures	3,200,273	2,503,000	2,482,000	−21,000
41 Grants, subsidies, and contributions (State homes)	7,378,261	7,481,000	7,461,000	−20,000
Gross costs, total	1,052,154,448	1,104,772,000	1,130,738,000	+25,966,000
Less Q.S. & L.	8,476,963	8,562,000	9,003,000	−441,000
Net costs, total	1,043,677,485	1,096,210,000	1,121,735,000	+25,525,000
Obligations incurred for costs of other years, net	7,230,413			
Total obligations	1,050,907,898	1,096,210,000	1,121,735,000	+25,525,000
Less:				
Reimbursements received	5,133,596	5,621,000	5,800,000	−179,000
Proposed supplemental		10,579,000		+10,579,000
Add:				
Unobligated balance or savings	941,499			
Transfers to other appropriations	1,456,499	1,176,000		−1,176,000
Appropriation or estimate	1,048,172,300	1,081,186,000	1,115,935,000	+34,749,000

MEDICAL CARE

INCREASE IN COST - FY 1965 OVER FY 1964



MEDICAL CARE

This appropriation provides for expenses necessary for maintenance and operation of VA hospitals, domiciliaries and clinics, and care and treatment of eligible beneficiaries in contract hospitals and State homes.

Comparative fiscal year monetary distributions for the medical care appropriation are as follows:

Net costs by major program	Fiscal year 1963, actual	Fiscal year 1964, estimated	Fiscal year 1965, estimated	Increase (+) or decrease (−), 1965 over 1964
VA hospitals	$865,097,803	$909,440,000	$933,034,000	+$23,594,000
VA domiciliaries	30,475,011	32,102,000	32,742,000	+640,000
Contract hospital	16,084,442	16,761,000	16,679,000	−82,000
State homes	7,378,261	7,481,000	7,461,000	−20,000
Inpatient activity	919,035,517	965,784,000	989,916,000	+24,132,000
Outpatient activity	124,641,968	130,426,000	131,819,000	+1,393,000
Net total costs	1,043,677,485	1,096,210,000	1,121,735,000	+25,525,000
Obligations for other years, net	+7,230,413			
Less:				
Reimbursements received	−5,133,596	−5,621,000	−5,800,000	−179,000
Property supplies		−10,579,000		+10,579,000
Add:				
Unobligated balance or savings	+941,499			
Transfers to other appropriations	+1,456,499	+1,176,000		−1,176,000
Appropriation or estimate	1,048,172,300	1,081,186,000	1,115,935,000	+34,749,000

NOTE.—Transfers to other appropriations in fiscal year 1963 totaling $1,456,499 are comprised of $30,499 transferred to the General Services Administration for rental of outpatient clinic space and $1,426,000 transferred to the Department of Data Management. The fiscal year 1964 transfer amount of $1,176,000 includes $16,000 transferred to GAS for rental of outpatient clinic space and $1,160,000 made available to the Department of Data Management for data processing functions transferred to that jurisdiction.

This estimate reflects an appropriation increase of $34,749,000 for fiscal year 1965 over the estimated fiscal year 1964 appropriation, or a net increase of $24,170,000 after considering fiscal year 1964 supplemental appropriation requirements of $10,579,000 for Public Law 83–763 wage board increases. The fiscal year 1964 column of this estimate includes the $10,579,000 supplemental appropriation requirements for the current fiscal year. The fiscal year 1965 column of this estimate excludes amounts required to pay Public Law 83–763 wage board increases that will be approved between July 1, 1963, and June 30, 1965. A supplemental appropriation request covering these requirements will be transmitted in the 1965 fiscal year.

The major changes in financial requirements for medical care programs result in a total net cost increase of $25,525,000.

1. $3,936,000 decrease for the 1 less workday and calendar day occurring in fiscal year 1965.

2. $17,105,000 increase for Public Law 87–793 salary rate increases ($11,761,000) and within-grade average salary increases ($5,344,000).

3. $2,895,000 for changes in the number and composition of beneficiary loads, the activation and equipping of new facilities, and increasing the number of patients treated.

4. $9,461,000 net increase (consolidated under the "Other program changes" column of this estimate) for the following needs:

(*a*) $4,098,000 increase for improving the quality of medical treatment and adding new medical services at existing facilities.

(*b*) $2,791,000 additional for increased utilization of utilities, communications, drugs, linens and medical supplies, and expense of operating central air-conditioning systems being installed at 19 hospitals.

(*c*) $250,000 additional for general rate increases approximating 3 percent in medical fees ($237,000) and 1 percent in dental fees ($13,000).

(*d*) $637,000 for increase in reimbursement to the Bureau of Employees Compensation, Department of Labor, for payment of benefits from the employees compensation fund, pursuant to Public Law 86–767.

(*e*) $6 million increase to meet maintenance and repair needs at aging medical facilities.

(*f*) $200,000 increase for prosthetic repairs and purchase of new prosthetic appliances becoming available as a result of research endeavors.

(*g*) Increase of $366,000 for the higher per diem rate increases for VA beneficiaries hospitalized in other Federal hospitals.

(*h*) Decrease of $3,480,000 to exclude the anticipated fiscal year 1964 cost of wage board increases approved between July 1, 1963, and June 30, 1964, from the fiscal year 1965 column of this estimate.

(*i*) Increase of $321,000 for the object class 31 equipment replacement program.

(*j*) Decrease of $21,000 in object class 32, "Land and structure," requirements, based on review of stations' engineering plans.

(*k*) Decrease of $441,000 in appropriation requirements due to the anticipated increase in Q.S. & L. salary deductions for new employees and adjustment of rental rates.

(*l*) Decrease of $1,260,000 for planned savings that will be realized in fiscal year 1965 due to conversion of elevators to automatic controls; improved prosthetic distribution procedures; increased productivity in VA pharmacies; and deferred purchases of new equipment for existing facilities.

Statements appearing in the immediately following paragraphs generally explain the necessity for special consideration for these items. More detailed explanations of the changes in number and composition of beneficiary loads affecting individual programs appear in the appropriate subsections of this estimate. The impact of each major change is spelled out separately on object of expenditure, employment, and functional activity cost charts for all programs and summaries to afford a clear picture of the transition in planned operating levels between fiscal years 1964 and 1965.

Inpatient Activities

Mr. Boland. Let us put in the record this summary on inpatient activities, page 21–23.

(The page follows:)

Inpatient Activities

Employment, workload, and object summary

	Fiscal year 1963 actual	Fiscal year 1964 estimated	Fiscal year 1965 estimated	Increase (+) or decrease (−), 1965 over 1964
Average employment	119,499	119,268	120,201	+933
Average payroll cost	$6,157	$6,512	$6,593	+$81
Operating beds:				
VA hospitals	120,304	120,371	120,249	−122
VA domiciliaries	16,770	16,669	16,679	+10
Average daily beneficiary load	137,867	137,664	137,622	−42
VA hospitals	110,194	110,269	110,318	+49
VA domiciliaries	15,690	15,451	15,448	−3
Contract hospitals	2,822	2,844	2,756	−88
State homes	9,161	9,100	9,100	
Patients treated	712,937	720,000	730,000	+10,000
Costs by object:				
11 Personnel compensation	$684,317,250	$722,360,000	$736,489,000	+$14,129,000
12 Personnel benefits	51,495,813	54,362,000	56,005,000	+1,643,000
21 Travel and transportation of persons:				
Employee	492,454	462,000	462,000	
All other	554,525	550,000	559,000	+9,000
22 Transportation of things	1,400,228	1,409,000	1,416,000	+7,000
23 Rent, Communications, and utilities	17,577,099	18,529,000	19,547,000	+1,018,000
24 Printing and reproduction	907,469	861,000	858,000	−3,000
25 Other services	28,477,935	30,224,000	36,064,000	+5,840,000
(Contract hospitals)	(16,084,442)	(16,761,000)	(16,679,000)	−(82,000)
(Medical and dental fees)	(1,069,837)	(1,080,000)	(1,077,000)	−(3,000)
26 Supplies and materials	114,527,209	115,796,000	117,205,000	+1,409,000
31 Equipment	17,189,841	19,819,000	20,381,000	+562,000
Replacement equipment	(13,781,979)	(16,657,000)	(17,533,000)	+(876,000)
Initial equipment for new facilities	(203,227)	(1,292,000)	(1,500,000)	+(208,000)
Initial equipment for existing facilities	(3,204,635)	(1,870,000)	(1,348,000)	−(522,000)
32 Lands and structures	3,194,396	2,493,000	2,472,000	−21,000
41 Grants, subsidies, and contributions (State homes)	7,378,261	7,481,000	7,461,000	−20,000
Total gross costs	927,512,480	974,346,000	998,919,000	+24,573,000
Less: Q.S. & L.	8,476,963	8,562,000	9,003,000	−441,000
Net total costs	919,035,517	965,784,000	989,916,000	+24,132,000

Mr. BOLAND. This table shows that in 1964 you spent $965,784,000 and you are asking for $989,916,000, an increase of $24,132,000.

You show the average employment as 119,268 in 1964 and 120,201 in 1965, an increase of 933.

Where does the big increase come here, in personnel costs?

Mr. MONK. $14,129,000 is the personnel cost increase.

Mr. BOLAND. That accounts for the great part of the $24 million increase?

Mr. MONK. Yes, sir.

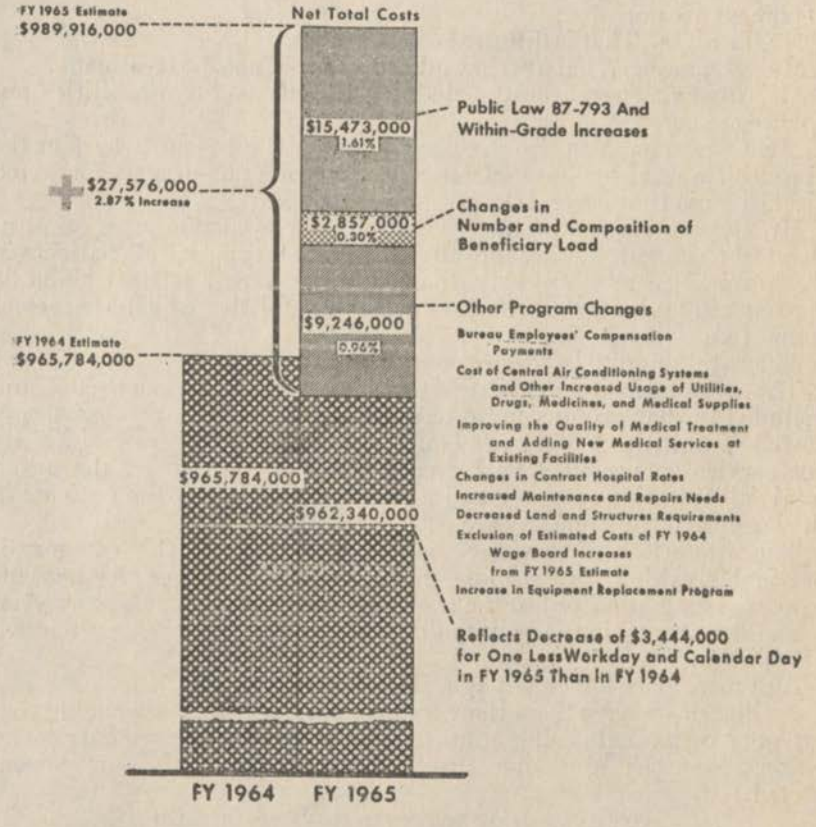
Mr. BOLAND. Put in page 21–24.

(The page follows:)

MEDICAL CARE

INCREASE IN COST - FY 1965 OVER FY 1964

Inpatient Care Activities



SERVICE-CONNECTED AND NON-SERVICE-CONNECTED PATIENTS

Mr. OSTERTAG. At this point, what is the relationship between non-service-connected and service-connected patients? What is the ratio?

Mr. WISE. Approximately one-third service connected.

Mr. ROSEN. There are 110,000 patients in the hospital and one-third of them are in because of service-connected disabilities.

Mr. THOMAS. What is that?

Mr. ROSEN. One-third of the patients in the hospital at any one time are in the category of service-connected disabilities.

Mr. THOMAS. You are talking about your outpatient clinics?

Mr. ROSEN. The question was "in the hospital."

Mr. THOMAS. It is not that high. You never have used a figure any higher than 80–20?

Mr. ROSEN. Among patients admitted to the hospital, 20 percent of them are admitted for treatment of service-connected disabilities and 80 percent are not.

Mr. THOMAS. That is different.

Mr. OSTERTAG. What are they admitted for if not for treatment?

Mr. ROSEN. They are admitted for treatment for disabilities not service connected.

Mr. OSTERTAG. You are dividing them on the basis of the fact the disability is service connected, but admitted for a non-service-connected disability; is that correct?

Mr. ROSEN. We can go into these things in two different ways. Instead of a patient moving into the hospital, all types of all patients in the hospital on most any day, the round number of 100,000, about 33 percent are under treatment for care of disabilities which are service connected.

They are found to be service connected.

The remainder are disabilities which are not service connected, and included in that group you do have some folks who have service-connected disabilities. They are being treated for conditions which are not service connected. As I recall, about 10 percent of the grand total fall into this category and a large proportion of the patients in the hospital on any one day are psychiatrically ill.

The proportion of service-connected disabilities in this category is particularly high. It is close to 50 percent. Among the patients who are being admitted to the hospital during the course of any year, a smaller proportion is being admitted for care of service-connected disabilities.

As I mentioned a moment ago, about 20 percent.

Although we have them there and even though they are among that category of patients being admitted for treatment of psychiatric conditions, even the admissions are running higher on the service connected.

COMPARISON OF PATIENTS IN VA HOSPITALS

Mr. GLEASON. Mr. Ostertag, in my annual report to the Members of Congress and to the President for 1963, on page 24 there is a chart and a summary. On a given day, for the census of the Veterans' Administration, there were 112,500 patients of which 525 were non-veterans, who were in there on a reimbursable basis. Of the remain-

der, there were three classifications of which 30.8 percent were veterans receiving care for their service-connected disabilities. There were 9.4 percent of veterans who had service-connected compensable disabilities, who were receiving medical care for non-service-connected disabilities.

Then there was 59.4 percent of veterans receiving care for non-service-connected disabilities. These veterans are eligible for VA care if a bed is available and they sign an affidavit certifying their inability to defray the cost of hospitalization.

LENGTH OF STAY OF PATIENTS IN VA HOSPITALS

Mr. OSTERTAG. In that connection the average stay or the average requirement of each patient is what? What I am getting at is that you have 110,000 beds and what I am talking about are those in veterans hosiptals; is that right, 110,000?

You are budgeting for 110,000 average daily patient load?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. I believe you are anticipating 730,000 patients during the course of this next year; am I correct?

Mr. WISE. Correct.

Mr. OSTERTAG. The question is, What is the average patient stay?

Mr. ROSEN. The average patient is staying about 60 days.

Mr. WISE. In that total, about half of the patients are psychiatric patients. Mr. Ostertag, the psychiatric patients, about 18 percent of those, have been with us 20 years or longer. That does rather distort the average length of stay of 60 days. In the case of your short-term medical surgery——

Mr. BOLAND. What is the total number?

Dr. ENGLE. 10,000.

Mr. BOLAND. Twenty years or longer?

Mr. GLEASON. Mr. Ostertag, once again I would like to refer to my report on page 28. This covers the length of stay in the hospitals. The length of stay can best be evaluated by an analysis of the duration of hospitalization of patients admitted during a given period. The median length of stay of a group of admissions provides an index of the hospital-stay experience of all admissions. One-half of the patients admitted require shorter periods of hospitalization than the median stay and the other half require longer periods of care. The estimated median length of stay of patients admitted to VA hospitals during calendar year 1962 was 21 days.

This figure was obtained from a 20 percent systematic random sample of VA admissions during the first 4 months of the year 1962.

The chart enclosed here presents data on the hospital stay experience of such patients admitted for treatment. About 80 percent of the patients admitted to VA hospitals during the year 1962 were treated for medical and surgical conditions. Their median stay was 18.8 days. Patients admitted for psychiatric conditions, other than psychosis, had a median stay of 27.4 days while those with neurological conditions required 28.8 days of care. In contrast, the median stay of patients admitted for all forms of tuberculosis and those treated for psychosis was 63.9 and 76.1 days respectively.

Mr. THOMAS. Let us take those three categories and give us the stay for each; NP, TB and G.M. & S. You said 18 days on the G.M. & S.?

Mr. GLEASON. I have that for you right here.

Mr. THOMAS. You did not give it to us for the TB? What is that?

Mr. OSTERTAG. How does that jell with the average 60-day figure?

Mr. GLEASON. On TB it is 62 days, sir.

Dr. MCNINCH. This is what the long-term psychiatric case does to the average, Mr. Ostertag.

Mr. OSTERTAG. The Administrator read those into the record but what was the average on the psychotic?

Mr. GLEASON. On the psychotic, about 78 days; 76.1.

On TB it is 63.9.

Mr. THOMAS. And then on G.M. & S., 18?

Dr. MCNINCH. Yes, sir.

Mr. OSTERTAG. I was given a figure of 60 days for the average of all, across the board; is that right?

Mr. ROSEN. That is right. The problem arises this way: You have in the hospitals, generally speaking, two kinds of patients. There is a group principally in the medical and surgical group expected to stay in the hospital a relatively short time. As these patients are admitted, most of them leave the hospital within several months. Half of them leave in about 20 days.

On the other hand, there is a group of very long-term patients, psychiatrically ill. Many of these patients after they are admitted to the hospital may stay in for 10, 15, and 20 years. If we compute the average length of stay, it is a number which is particularly affected by the length of stay of a small number of patients who stay a very long time.

CLASSIFICATION OF PATIENTS ADMITTED TO VA HOSPITALS

Mr. THOMAS. Doctor, this is very confusing to the public. Which category comes in for the largest number, NP, TB, or G.M. & S.?

Dr. MCNINCH. In terms of admissions to the hospital?

Mr. THOMAS. Yes.

Dr. MCNINCH. G.M. & S.

Mr. THOMAS. What part of your total bedload goes into G.M. & S.—40 percent?

Mr. ROSEN. About 40 to 50 percent.

Mr. THOMAS. What is the figure for NP?

Mr. ROSEN. About 50 percent of the bedload.

Mr. THOMAS. The NP is your biggest bedload?

Mr. ROSEN. In terms of admissions.

Mr. THOMAS. We are talking about bedload. You are operating on the basis of 110,000 beds in this chart; are you not?

Mr. ROSEN. Yes, sir.

Mr. THOMAS. Your biggest patient bedload is NP, about 50 percent, and the G.M. & S. is 40 percent, and the TB is going down and down? What is it?

Mr. ROSEN. 78 percent now.

Mr. THOMAS. People do not understand. They do not expect a TB patient to come out in 24 hours or 48 hours. They do not expect an NP patient to come out in that time, but I think where most of your misunderstanding comes from is your G.M. & S. cases where they stay in 18 days. Is that not considerably longer than a private hospital permits them to stay?

Mr. ROSEN. I do not think——

Mr. GLEASON. That would affect the average, Mr. Chairman. You must remember in our hospitals we do not have pediatrics or gynecology. We do not have obstetrics. These are all averaged out in the length of stay for private hospitals. Our patients are all aging patients.

Mr. THOMAS. Put your best foot forward and explain it. You have a pretty favorable record on G.M. & S. In the first place, your patients are usually older than you find in private hospitals. You do not have child delivery cases which usually take 7 or 8 days at the longest, do you?

Mr. GLEASON. Much lower than that, now, sir.

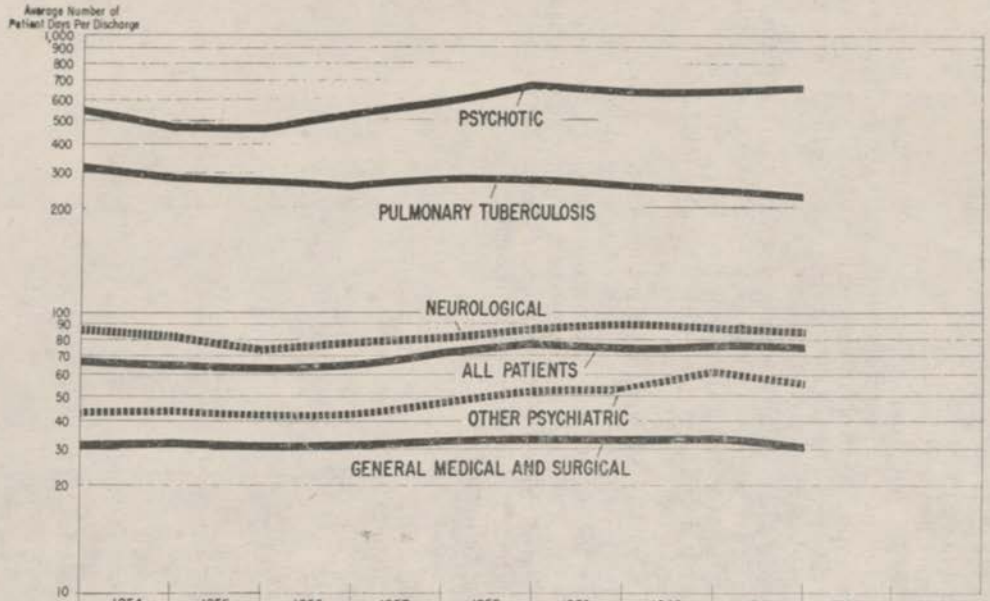
May I offer for the record a chart on the trend and length of stay in VA hospitals? It is a very interesting chart, Mr. Boland.

As you can see, the psychotic cases at the top average about 670 days, over the period of the last 10 years shown there.

Mr. BOLAND. Put that chart in the record.

(The chart follows:)

TREND IN LENGTH OF STAY IN VA HOSPITALS



TYPE OF PATIENT	CALENDAR YEAR								
	1954	1955	1956	1957	1958	1959	1960	1961	1962
ALL PATIENTS	64.8	63.0	64.9	70.2	76.8	73.1	76.0	74.8	
PULMONARY TUBERCULOSIS	286.3	275.4	258.0	278.1	281.7	263.6	250.9	235.5	
PSYCHOTIC	471.3	471.0	526.0	583.8	671.9	643.5	647.3	662.8	
OTHER PSYCHIATRIC	43.3	42.0	42.8	46.4	51.9	52.1	60.6	55.7	
NEUROLOGICAL	81.8	74.3	78.3	80.8	86.4	90.0	87.9	84.5	
GENERAL MEDICAL & SURGICAL	31.9	31.0	31.4	33.0	33.2	33.1	35.3	30.8	

1962 data are expected to be available in Sept 1963

305

Dr. ENGLE. We would also like to mention there has been a significant improvement in shorter lengths of stay for every age group between 1960 and 1963. The average length of stay has gone down for each age group. For example, under the heading of "Under 35 Age Group," in 1963, the average length of stay was 20.7 days for G.M. & S. patients. We attribute this primarily to the cooperation and understanding of this committee in giving us additional employees in the hospital system alone, where we have 4,000 more employees now than we had in 1959.

Mr. OSTERTAG. Mr. Chairman, what I was trying to get at when I raised the question about the total patient load was the average stay as related to this whole picture of inpatient care and I think the Administrator, has, to some extent, answered it with this table covering trends.

NUMBER OF PATIENTS TREATED

However, how does your anticipated load, not beds, but your anticipated load apply to this 700,000 patients expected next year? How does that compare with previous years?

Mr. GLEASON. 10,000 more than——

Mr. OSTERTAG. Than last year?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. How about the year before that?

Mr. GLEASON. It was about 20-some-thousand.

Mr. OSTERTAG. You have had a rapid, or substantial, increase in the total number of patients and veterans you care for each year, so you have reached a high total of 730,000-odd? This is with 110,000 beds, without maintaining the existing level of capacity and you are gradually working toward a higher and higher figure in the total number of patients that will be cared for in what we call inpatient care in veterans' hospitals?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. That is basically caused by virtue of the average stay; is it not?

Mr. GLEASON. Being reduced.

Mr. OSTERTAG. Being reduced, but do you look for a continuation of that trend?

Mr. GLEASON. Yes, sir; we do.

Mr. OSTERTAG. The need or demand for care of patients will remain as high or higher?

Mr. GLEASON. It will be going up.

Mr. OSTERTAG. Am I right?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. That is what I am trying to get at.

SUMMARY DATA ON INPATIENT ACTIVITIES

Mr. BOLAND. Let us put pages 21–27 and 21–28 in the record.

(The pages follow:)

INPATIENT ACTIVITIES

Program notes

During fiscal year 1963, the Veterans' Administration operated 169 hospitals (counting separate divisions of consolidated hospitals) and 18 domiciliaries. A 120-bed restoration center at Hines, Ill., also was operated which is reported statistically and financially as part of the domiciliary program. Operating bed averages of 120,304 in hospitals and 16,770 in domiciliaries were maintained, in which care and treatment were provided to average daily beneficiary loads of 110,194 patients and 15,690 members. In addition, care and treatment were provided to average daily beneficiary loads of 2,822 patients in civil, State and

other Federal hospitals, and 9,161 members in State homes on a contract reimbursable basis. The total average daily beneficiary load receiving care and treatment under the inpatient care program in fiscal year 1962 was 137,867.

The total average daily beneficiary load receiving care and treatment on an inpatient basis is expected to decrease slightly in the fiscal years 1964 and 1965 due to the lesser demand for domiciliary beds in certain localities. However, the average daily patient load in VA hospitals will rise in fiscal year 1964 with completion of the activation of the new Brecksville, Ohio, 1000-bed NP hospital. A further increase in VA hospital workloads will occur in fiscal year 1965 with activation of the new general hospitals in Washington, D.C., and Cleveland, Ohio. Comparative average daily beneficiary loads are as follows:

	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965	Increase (+) or decrease (−), 1965 over 1964
VA hospitals	110,194	110,269	110,318	+49
VA domiciliaries	15,690	15,451	15,448	−3
Contract hospitals	2,822	2,844	2,756	−88
State homes	9,161	9,100	9,100	
Total	137,867	137,664	137,622	−42

With enactment of Public Law 86–639, approved July 12, 1960, the average daily beneficiary load has assumed a lesser role in measuring the effectiveness of the agency's medical system. This legislation authorized the Administrator of Veterans' Affairs to furnish medical services for non-service-connected disability in preparation for admission of a veteran who has been determined to need hospital care and who has been scheduled for admission, as well as posthospital medical services where it is found necessary to complete hospital care. Profound impact is being demonstrated in the VA hospital system, resulting in improved patient turnover despite the increase in chronic infirmity, among the aging veteran population.

In a hospital system as vast as that operated by the VA, it is inevitable that many of the hospitals will experience a decrease in the average daily patient loads as patient turnover rates increase. It is the policy of the VA, however, that decreases in average patient loads at any hospital will be compensated by demonstrated increases in patient turnover.

The VA is presently operating under an overall hospital bed ceiling of 125,000 established by the President of the United States on February 26, 1959. Within this policy, the VA has the authority to change the designation of hospitals and to relocate beds on the basis of geographic demand. The flexibility thus granted enables the agency to meet changes in hospitalization demand more quickly.

Changes in operating bed levels at VA facilities for the comparative fiscal years are shown below. The changes in hospital beds planned for fiscal year 1965 result principally from modernization work at the Bedford, Mass., and Perry Point, Md., hospitals, and the new construction at Washington, D.C. Domiciliary bed levels will remain relatively stable with beds closed in areas of reduced demand more than offset by beds becoming available at the new East Orange, N.J., Restoration Center.

Operating bed changes

	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965	Increase (+) or decrease (−), 1965 over 1964
Neuropsychiatric hospitals	57,601	57,590	57,445	−145
General hospitals	62,703	62,781	62,804	+23
Subtotal, hospitals	120,304	120,371	120,249	−122
Domiciliaries	16,770	16,669	16,679	+10
Total, VA facilities	137,074	137,040	136,928	−112

The total VA hospital bed authorization is based on the present structural capacity of each of the hospitals with adjustments for approved future hospital replacement and modernization projects. As of June 3, 1963, the total bed capacity of the VA hospitals was 122,205, of which 2,065 beds were unavailable on that date for the following reasons:

In process of activation	182
Type of bed not required, no patient demand	672
Space for beds undergoing construction or maintenance activity	688
Other reasons, due to hospital replacement, overcrowded conditions, etc.	523
Total	2,065

A substantial number of the beds reported on June 30, 1963, as unavailable will be placed in operation during the current fiscal year. December 31, 1963, data on the number of beds in operation and beds unavailable for patient use will be provided in complete detail at hearings on the agency's fiscal year 1965 appropriation request.

Mr. BOLAND. This indicates you are operating 169 hospitals and 18 domiciliaries.

Mr. GLEASON. Eighteen domiciliaries plus the two restoration centers.

Mr. BOLAND. You have a comparative average daily beneficiary load shown in the middle of that page.

WAITING LIST

Let us put page 21–29 in the record indicating the waiting list.
(The page follows:)

WAITING LIST

Comparative fiscal years 1962 and 1963 month-end waiting list numbers of beneficiaries eligible, but not then scheduled for hospital admission are shown in the following table:

At end of month	Psychiatric patients		Medical, surgical, and tuberculosis patients		Total		Increase (+) or decrease (−), 1963 over 1962
	Fiscal year 1962	Fiscal year 1963	Fiscal year 1962	Fiscal year 1963	Fiscal year 1962	Fiscal year 1963	
July	11,930	11,904	4,896	5,801	16,826	17,705	+879
August	11,837	11,866	4,417	5,625	16,254	17,491	+1,237
September	12,049	11,762	4,488	6,033	16,537	17,795	+1,258
October	11,917	12,031	3,836	5,770	15,753	17,801	+2,048
November	11,835	12,009	3,602	5,527	15,437	17,536	+2,099
December	11,909	12,103	3,342	5,330	15,251	17,433	+2,182
January	11,932	12,495	5,574	8,232	17,506	20,727	+3,221
February	12,102	12,917	7,263	10,603	19,365	23,520	+4,155
March	12,544	13,127	7,972	11,155	20,516	24,282	+3,766
April	12,484	12,593	7,315	9,199	19,799	21,792	+1,993
May	12,205	11,779	6,377	7,596	18,582	19,375	+793
June	12,101	11,371	6,327	8,076	18,428	19,447	+1,019
Monthly average	12,070	12,163	5,451	7,412	17,521	19,575	+2,054

Mr. BOLAND. This indicates the number of people waiting to get into your institutions, and this increased as between 1962 and 1963.

Mr. WISE. Mr. Boland, we would like to insert in the record an additional table which will bring this up to date since last June through December. There has been a reversal of this trend where we have today approximately 1,900 less veterans on the waiting list than a year ago at this time.

(The table referred to follows:)

Monthly waiting list

At end of the month	Psychiatric patients		Medical, surgical, and neurological patients		Total patients		Increase (+) or decrease (−) 1964 over 1963
	Fiscal year 1963	Fiscal year 1964	Fiscal year 1963	Fiscal year 1964	Fiscal year 1963	Fiscal year 1964	
July	11,904	11,144	5,801	6,959	17,705	18,103	+398
August	11,866	10,745	5,625	6,100	17,491	16,845	−646
September	11,762	10,873	6,033	5,840	17,795	16,713	−1,082
October	12,031	10,778	5,770	5,514	17,801	16,292	−1,509
November	12,009	10,998	5,527	5,022	17,536	16,020	−1,516
December	12,103	10,971	5,330	4,483	17,433	15,454	−1,979

Mr. OSTERTAG. What has brought that about?

Mr. WISE. I think the continued efforts to improve patient turnover.

Mr. THOMAS. What is the classification of the waiting list as between service connected and nonservice connected and the three categories, general medical and surgical, tuberculosis, and neuropsychiatric?

Mr. GLEASON. No waiting list for service connected.

Mr. THOMAS. Where is your big waiting list then, nonservice?

Mr. GLEASON. Yes, sir.

Mr. WISE. The waiting list is 100 percent nonservice connected.

Mr. THOMAS. Which part of the three categories?

Mr. GLEASON. Probably two-thirds in the neuropsychiatric, I would say; is that about right?

Mr. WISE. Yes.

Dr. ENGLE. Of the 19,575 on the waiting list shown on page 21–29, 12,163 were psychiatric patients.

Mr. GLEASON. I would like to mention that out of that 12,000 that the doctor has mentioned, about 6,905 of those on the waiting list were in non-VA hospitals; that is, State, Municipal, or county, principally for psychiatric assistance.

CONVERSION OF TUBERCULOSIS BEDS

Mr. THOMAS. How many beds are you converting now from tuberculosis to neuropsychiatric and how many new beds do you have coming into operation within this fiscal year for neuropsychiatric cases?

Dr. ENGLE. We are converting 600 beds from neuropsychiatric and tuberculosis to medical and surgical.

Mr. WISE. None to neuropsychiatric. The neuropsychiatric program, because of construction——

Mr. THOMAS. None are being converted from tuberculosis to neuropsychiatric? I thought this was where conversion was, rather than general medical and surgical?

Mr. WISE. No, sir; every tuberculosis bed converted today is for treatment of medical and surgical conditions.

Mr. THOMAS. How many new neuropsychiatric beds do you have coming into operation? That is where your waiting list is, two-thirds of the waiting list in neuropsychiatric?

Mr. WISE. In 1965, construction will provide no new beds. Actually, because of construction, we will have to take 145 present beds out of operation and that will be at three locations; Bedford, Mass., Northport, N.Y., and Perry Point, Md. I believe it is 145 beds.

DEMAND FOR PSYCHIATRIC CARE

Mr. THOMAS. How many beds do you have set aside for neuropsychiatric now? Give us the number set aside for general medical and surgical. That is where your backlog is, in your neuropsychiatric?

Mr. GLEASON. Yes, sir, Mr. Chairman.

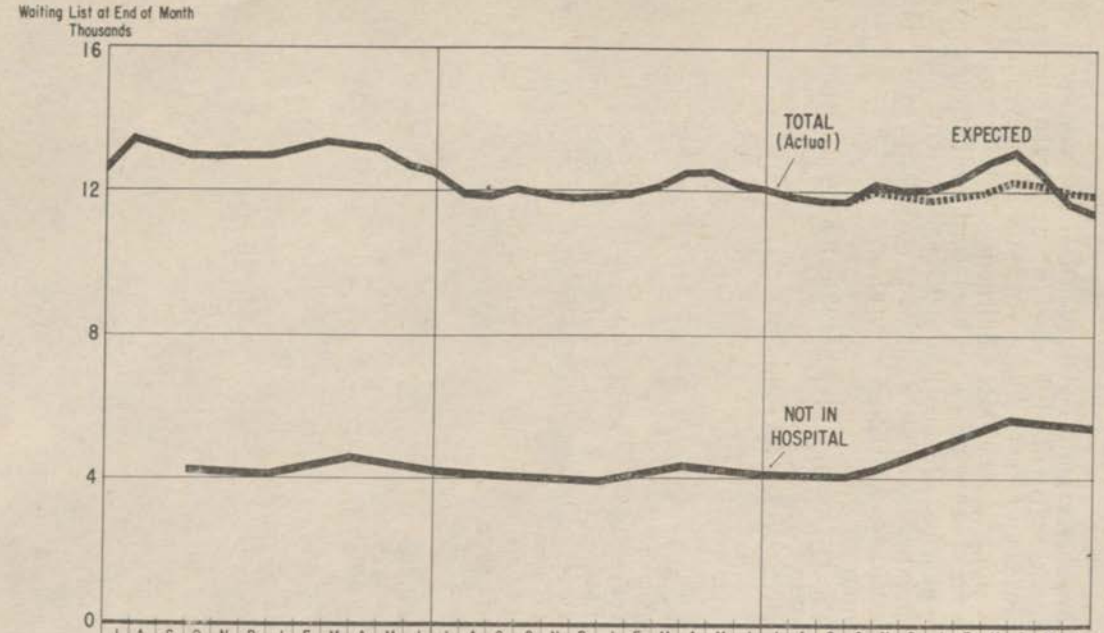
Mr. Chairman, could I insert in the record another chart which is a waiting list of psychiatric patients. This shows only a third of those on the waiting list are not now receiving psychiatric care in other hospitals, either Federal or State or local.

Mr. THOMAS. Yes.

Mr. GLEASON. It shows very graphically the situation for the last 3 fiscal years.

(The chart referred to follows:)

WAITING LIST
PSYCHIATRIC PATIENTS



		J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J
TOTAL	EXPECTED																								11,904
	ACTUAL	13,514	13,503	13,098	12,818	13,044	12,950	13,085	13,215	13,267	13,200	12,785	12,626	12,830	11,837	12,049	11,917	11,855	11,909	11,932	12,100	12,544	12,484	12,305	12,101
NOT IN HOSPITAL				4,047			4,059			4,559			4,315			4,043			3,909			4,375			4,162

		J	A	S	O	N	D	J	F	M	A	M	J
TOTAL	EXPECTED	11,966	11,762	12,000	11,900	11,800	11,900	12,000	12,300	12,200	12,000	11,900	
	ACTUAL	11,804	11,816	11,752	12,031	12,009	12,103	12,495	12,917	13,127	12,985	11,719	11,512
NOT IN HOSPITAL				4,045			4,685			5,630			5,490

FY 1963

1/ Preliminary

Mr. THOMAS. Most of the people are in State institutions and their families are clamoring in trying to get them here?

Mr. GLEASON. In our hospitals; that is correct.

Mr. THOMAS. That is where your shortage is, but what is the answer to it; more beds?

Mr. DRIVER. Research.

Mr. THOMAS. More beds or more conversions?

Do you have any more TB beds that you can convert?

Dr. ENGLE. I think the answer, Mr. Chairman, is basically we cannot get the professional staff to operate more than this total of psychiatric beds. I think you and the other members of the committee are aware of the fact that there is a nationwide shortage of psychiatrists and we share in this shortage. We share in the problem of recruiting these scarce-category personnel. I think we acknowledge without any debate our primary responsibility and our primary challenge is in this area of psychiatry and we are endeavoring to do all that we can in this connection.

Mr. OSTERTAG. Will the chairman yield there?

Mr. BOLAND. Yes.

CHANGES IN OPERATING BEDS AND PATIENT LOAD

Mr. OSTERTAG. In connection with this overall picture of hospital beds and inpatient care, you plan to operate 120,000 beds this next year with an average daily load of 110,318. What change has taken place or will take place as between the various types of care as it relates to your overall bed capacity or bed-patient load? I am talking about NP, TB and G.M. & S. and so on. Can you give us a breakdown of that? How does it compare with the previous year?

Mr. BOLAND. Mr. Ostertag, that is on page 21–34.

Mr. GLEASON. That is right; I think that will answer it, Mr. Ostertag.

Mr. BOLAND. Let us put the narrative shown on pages 21–30, 21–31, 21–32, and 21–33 in the record.

(The pages follow:)

CHANGES IN IN-PATIENT MEDICAL PROGRAMS

Highlights of planned changes in the scope of individual inpatient medical programs contemplated in this estimate for fiscal year 1965 are as follows:

Neuropsychiatric hospitals

The programs will be accelerated for establishing medical and surgical bed sections for psychiatric patients requiring treatment for medical, surgical, and neurological conditions, and for providing increased nursing and related staffing for psychiatric-medically infirm patients. Consistent with the objective of increasing the turnover rate at all neuropsychiatric hospitals, greater emphasis will be placed on trial visit, foster home, halfway house, and similar programs designed to return the patient to his home community. Decreases of 145 operating beds and 101 average patient load will be required because of construction work scheduled in the 1965 fiscal year.

General hospitals

Except for the increase of 150 patient load resulting from activation of the new general hospitals in Cleveland, Ohio, and Washington, D.C., only minor changes in operating bed and patient load levels are planned at general hospitals

in fiscal year 1965. These changes primarily are occasioned by major modernization work scheduled for that fiscal year, but include limited shifts in patient load and bed activation to alleviate overcrowding and/or meet changing patient demands in specific geographic areas.

Contract hospitals

A decrease of 88 average daily patient load (minus 89 in Federal and plus 1 in non-Federal hospitals) is planned for the contract hospitalization program in fiscal year 1965. Demands for Federal beds are expected to increase at the U.S. Navy hospitals in Jacksonville, Fla.; Philadelphia, Pa.; and San Diego, Calif. An overall decrease in Federal contract bed utilization, however, will result in the Washington, D.C., area where new VA beds will adequately meet demands.

VA domiciliaries

A new 200-bed Restoration Center will be activated at East Orange, N.J., midway in fiscal year 1964. Under the Restoration Center program, special restoration training will be afforded former hospital patients and domiciliary members that have received maximum benefits in order to fit them for purposeful and independent living. This program emphasizes restoration and outplacement of disabled veterans, and serves to increase the utilization of beds in VA facilities for those in need of medical treatment and care. The domiciliary program operating bed and beneficiary load levels will remain relatively stable in fiscal year 1965 with the full-year operation of the new East Orange facility compensating for the lesser demand for domicilary beds in other localities.

State homes

The estimate for fiscal year 1965 provides continuance of the fiscal year 1964 level of 9,100 average daily member load in State homes.

DETAIL OF CHANGES IN NUMBER AND COMPOSITION OF BENEFICIARY LOADS

Net increases in average employment of 358 and funds in amount of $2,857,000 are required for inpatient activities in fiscal year 1963 in order to provide for changes in the number and composition of average beneficiary loads, staffing of newly activated hospitals and a restoration center, and increase of 10,000 patients treated in VA hospitals over the number anticipated in fiscal year 1964, explained as follows:

Neuropsychiatric hospitals

Net increases of 160 employees and $1,375,000 comprised of the following:

1. Increases of 186 average employment and $1,250,000 for establishing or strengthening medical and surgical bed sections in NP hospitals. The Agency plans movement of all its hospitals toward the general hospital concept, recognizing that institutions staffed and equipped to represent all the medical specialties can render better patient care. This program contemplates establishment of a limited number of general medical and surgical beds in psychiatric hospitals. These beds will serve both immediate community needs as well as the needs of the psychiatric patients already hospitalized for whom medical and surgical care is primary. The initial phase of this program contemplates that within the next 3 or 4 years approximately 8 percent of the beds in psychiatric hospitals will be redesignated as medical and surgical beds. Present staffing ratios in the older NP hospitals now provide about 36 to 40 treatment staff per 100 patients, compared with averages of 90 treatment staff per 100 patients required for medical and surgical bed sections. The increased staffing and funds requested for fiscal year 1965 will permit bringing the staffing ratios for medical and surgical bed sections to acceptable levels at eight NP hospitals where these bed sections already are established, and establishing bed sections of 40 medical beds and 30 surgical beds at one NP hospital not now having such bed sections. In addition to adequately providing for establishment of the new bed sections, the increment in staffing will afford an increase of 1,700 more patients treated in NP hospitals in fiscal year 1965 over the number treated in fiscal year 1964.

2. Decreases of 26 average employment and $171,000 for a decrease of 101 average patient load at NP hospitals where construction changes will result in reduced bed capacities, or where it is necessary to ease overcrowded conditions.

3. Increase of $296,000 for procurement of initial equipment for newly constructed or modernized facilities.

General hospitals

Increases of 180 employees and $1,961,000 for the following:

1. One hundred and eighty employees and $1,809,000 additional for increase of 110 average patient load at the new Washington, D.C., 710-bed general hospital; 40 average patient load at the new Cleveland, Ohio, 804-bed general hospital; change of approximately 450 TB patients to other medical and surgical categories in other general hospitals; and increasing the number of patients treated in all general hospitals by 8,300.

2. Increase of $152,000 for procurement of initial equipment for newly constructed or modernized facilities.

Domiciliaries and restoration centers

A net increase of 18 employees and a net decrease of $77,000 for the following:

1. Increases of 45 employees and $370,000 for 126 additional average restoree load at the new restoration center located at East Orange, N.J. These increases are required to annualize the full activation level expected to be attained at the close of the 1964 fiscal year.

2. Decreases of 27 employees and $207,000 for the 129 lesser average member load planned in domiciliaries where demands are declining.

3. Decrease of $240,000 in the procurement of initial equipment since no new domiciliary facilities are planned in fiscal year 1965.

Contract hospitals

Decrease of $402,000 for reduction of 88 average daily patient load in contract hospitals in fiscal year 1965. The decrease in contract hospital load is at locations where new VA hospital beds will meet demands adequately.

State homes

This estimate contemplates no change in the average daily member load level of 9,100 in State homes for the fiscal years 1964 and 1965.

AVERAGE DAILY PATIENT LOAD

Mr. BOLAND. Perhaps it would be well to add page 21–34 giving the average daily patient load in VA hospitals.

(Page 21–34 follows:)

Average daily patient load in VA hospitals

	Fiscal year 1963, actual	Fiscal year 1964, estimated	Fiscal year 1965, estimated	Increase (+) or decrease (−), fiscal year 1965 over 1964
Neuropsychiatric hospitals:				
Psychiatric patients	50,202	50,030	49,749	−281
Medical patients [1] [2]	3,275	3,340	3,460	+120
Surgical patients [1]	909	927	987	+60
Total, patients	54,386	54,297	54,196	−101
General hospitals:				
Psychiatric patients	5,353	5,487	5,637	+150
Medical patients [1] [2]	34,114	34,003	33,907	−96
Surgical patients [1]	16,341	16,482	16,578	+96
Total, patients	55,808	55,972	56,122	+150
All hospitals:				
Psychiatric patients	55,555	55,517	55,386	−131
Medical patients [1] [2]	37,389	37,343	37,367	+24
Surgical patients [1]	17,250	17,409	17,565	+156
Total, patients	110,194	110,269	110,318	+49

[1] Patients with psychiatric-TB and neurologic conditions receiving treatment in medical and surgical wards are included in the respective counts for medical or surgical patients.

[2] The count for fiscal year 1963 includes 423 patients who were classified as member employees prior to enactment of PL 87-574.

PSYCHIATRIC PATIENT LOAD

Mr. BOLAND. This indicates the average daily patient load in VA hospitals in NP in 1965 was 49,749 as compared with 50,030 in 1964. We actually have a decrease of 281 psychiatric patients. Is this occasioned by construction?

Mr. WISE. Yes, sir.

Mr. BOLAND. This is temporary?

Dr. ENGLE. There is one other aspect we might mention at this time. In terms of responsibilities we have in our psychiatric hospitals, of the 50,000 or so patients about 15 percent of them have significant medical and surgical ailments. We have just recently come to appreciate the fact that there are so many patients in our hospitals who have been there for many, many years. They are aging and incurring the same medical and surgical ailments that nonpsychiatric patients have. About 15 percent or 7,500 patients in our psychiatric hospitals have serious medical and surgical ailments. About half of this total, 3,000 or 4,000, we are going to try and put internists and surgeons on, medical and surgical staff, to give them more adequate care. Some of these beds will be changed from the category of psychiatric beds to medical beds. They will be psychiatric patients who will be needing, primarily, medical and surgical care. This is going to change the statistics over a period of the foreseeable future wherein it will seem at first glance we are cutting down on the number of psychiatric beds, but more correctly, we are just changing the categorization of those beds. We are calling them medical because the primary need is for medical attention for this type of patient.

Mr. BOLAND. Doctor, what you are saying is probably, without a doubt, correct, but does not fall into place in my thinking with regard to your chart on page 21–34 where you anticipate an estimated load of 49,749 in NP hospitals which is a reduction of 281. In general medical and surgical hospitals, you will have 5,637 psychiatric patients, which is an increase of 150 over previous years.

Dr. ENGLE. Yes, sir.

Mr. BOLAND. In other words, it looks like there will be more NP or psychiatric patients in general hospitals and less in NP hospitals?

Dr. MCNINCH. The balance is shown at the bottom under the listing of "All hospitals." There is really very little change. That is shown at the bottom of the page.

Under "Beds for psychiatric, medical patients, and surgical patients," that is shown there.

Mr. WISE. Mr. Ostertag, I think, directly to your question, in general hospitals with the activation of this new Washington, D.C., replacement hospital, that is going to replace the Mount Alto Hospital which is on Wisconsin Avenue, we are picking up 400 additional beds in that facility. A large block of these are psychiatric beds. We will have an increase of 150 psychiatric beds all at this new hospital when it opens in 1965.

NURSING BED CARE PROGRAM

Mr. OSTERTAG. Mr. Chairman, this might be a good place to raise a question with regard to the relationship of the nursing home study

program to this program, or this in-patient care aspect, or the medicar care aspect of the Veterans Administration.

Will there be any relationship between them during this next year?

Mr. GLEASON. Not that we can see, Mr. Ostertag.

Mr. OSTERTAG. In other words, the program will not be in effect?

Mr. GLEASON. Which program?

Mr. OSTERTAG. The nursing home program.

Mr. GLEASON. Yes; we will certainly get this underway.

Mr. OSTERTAG. Why will it not have a relationship to your average stay and a few other aspects of your requirements in in-patient care? Will not these patients, or these veterans, in nursing homes, to a certain extent be the result of nursing care from hospitals?

Mr. GLEASON. Yes, sir; I do not believe they will be considered in this chart shown on page 21–34 any more than our domiciliary members are.

Mr. THOMAS. He is raising the general question and now is a good place to discuss that on your rest homes. He is asking you, fundamentally, for every rest home bed, how many beds are you going to take out of your actual hospitals?

Mr. GLEASON. One for one, since nursing bed patients will be admitted from our hospitals.

Mr. OSTERTAG. Why will it not have an effect on your capacity or your stay in these hospitals?

Mr. GLEASON. In that regard, it will.

Mr. OSTERTAG. Then your increase in the total number of patients you anticipate during this next year is predicated to some extent on certain of these patients being moved into nursing homes?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. That is what I wanted to know.

COST CHANGES IN IN-PATIENT ACTIVITIES

Mr. BOLAND. Let us put page 21–36 in the record.

(The page referred to follows:)

Detail of cost changes

Items	Neuro-psychiatric hospitals	General hospitals	All hospitals	Domiciliaries	Contract hospitals	State homes	Total
Public Law 87-793 and within grade increases	+$5,174,000	+$9,878,000	+$15,052,000	+$421,000			+$15,473,000
One less workday and calendar day	−1,101,000	−2,169,000	−3,270,000	−108,000	−$46,000	−$20,000	−3,444,000
Changes in number and composition of beneficiary load	+1,375,000	+1,961,000	+3,336,000	−77,000	−402,000		+2,857,000
Improving the quality of medical treatment and adding new medical services at existing facilities	+2,135,000	+1,478,000	+3,613,000	+202,000			+3,815,000
Exclusion of fiscal year 1964 wage board increased costs from fiscal year 1965 column of this estimate	−1,118,000	−2,205,000	−3,323,000	−147,000			−3,470,000
Increased utilization of utilities, communications, drugs, medicines, linens, medical supplies, and expense of operating central air conditioning system	+478,000	+1,967,000	+2,445,000	+68,000			+2,513,000
Increased prosthetic repairs and purchase of new prosthetic appliances	+4,000	+28,000	+32,000	+2,000			+34,000
Increase in reimbursement of Department of Labor for payment of benefits from employees compensation fund	+209,000	+352,000	+561,000	+17,000			+578,000
Change in contract hospitalization rates					+366,000		+366,000
Maintenance and repair needs at aging medical facilities	+2,004,000	+3,534,000	+5,538,000	+402,000			+5,940,000
Change in object 32 land and structure requirements	−5,000	−11,000	−16,000	−5,000			−21,000
Increase for object 31 replacement equipment	+162,000	+792,000	+954,000	−78,000			+876,000
Decrease for estimated increase in Q.S. & L. salary deductions	−145,000	−285,000	−430,000	−11,000			−441,000
Decrease for management improvement actions	−196,000	−702,000	−898,000	−46,000			−944,000
Total	+8,976,000	+14,618,000	+23,594,000	+640,000	−82,000	−20,000	+24,132,000

Mr. BOLAND. This shows a detail of cost changes. This table reflects the increase you are asking for, $24,132,000 for fiscal 1965.

Page 21–37 gives the comparative full-time equivalent employment summary by activity and I see you are looking for 933 additional employees for a total of 120,201 in 1965 as compared to 119,268 in 1964.

The greatest number here is in the nursing services; this is a big increase.

Mr. THOMAS. Mr. Boland, would you let me interrupt you a minute?

Gentlemen, let us recess now and come back at a quarter to 1.

AFTERNOON SESSION

COMPARISON OF IMPATIENT COSTS BY ACTIVITY

Mr. BOLAND. The committee will please come to order. We will put page 21–38 in the record.

(The page follows:)

Comparison of costs by activity

Activity	Fiscal year 1963 actual	Fiscal year 1964 estimated	1 less workday and calendar day	Public Law 87-793 within-grade increases	Changes in number and composition of beneficiary load	Other program changes	Fiscal year 1965 estimated	Increase (+) or decrease (−) 1964 over 1964
Care of patients:								
Professional medical services	$105,201,213	$115,707,000	−$426,000	+$1,867,000	+$404,000	+$210,000	$117,762,000	+$2,055,000
Ancillary medical services	73,801,998	77,418,000	−228,000	+1,007,000	+398,000	+1,937,000	80,532,000	+3,114,000
Nursing services	255,933,302	267,255,000	−1,097,000	+6,982,000	+1,710,000	+1,914,000	276,854,000	+9,599,000
Physical medical and rehabilitation service	35,417,614	37,527,000	−158,000	+695,000	+65,000	+65,000	38,195,000	+668,000
Dietetic service	127,928,485	133,577,000	−501,000	+879,000	+204,000	−1,317,000	132,842,000	−735,000
Chaplains	4,243,161	4,410,000	−15,000	+69,000			4,464,000	+54,000
Dental services	13,998,814	14,679,000	−54,000	+321,000	+12,000	+21,000	14,979,000	+300,000
Special treatment services	419,528	535,000	−2,000	+7,000			540,000	+5,000
Subtotal	616,944,115	651,108,000	−2,391,000	+11,827,000	+2,974,000	+2,830,000	666,168,000	+15,060,000
General administration:								
Office of Director	10,789,730	12,256,000	−41,000	+137,000	+3,000	+354,000	12,709,000	+453,000
Registrar	39,381,467	41,381,000	−155,000	+1,164,000	+52,000	+79,000	42,521,000	+1,140,000
Comm. and records	11,571,433	11,716,000	−41,000	+234,000	+15,000	+3,000	11,927,000	+211,000
Fiscal	12,137,179	12,477,000	−46,000	+279,000	+5,000	+3,000	12,718,000	+241,000
Personnel	8,399,583	8,807,000	−31,000	+177,000	+3,000	+2,000	8,958,000	+151,000
Supply	17,840,615	18,660,000	−70,000	+413,000	+9,000	−29,000	18,983,000	+323,000
Domiciliary Administration Office	1,034,883	1,079,000	−4,000	+14,000		+2,000	1,091,000	+12,000
Subtotal	101,154,890	106,376,000	−388,000	+2,418,000	+87,000	+414,000	108,907,000	+2,531,000
Housekeeping Division:								
Housekeeping operation	36,862,018	38,366,000	−144,000	+318,000	+42,000	−259,000	38,323,000	−43,000
Laundry and dry cleaning	12,319,826	13,329,000	−50,000	+136,000	+7,000	−249,000	13,173,000	−156,000
Subtotal	49,181,844	51,695,000	−194,000	+454,000	+49,000	−508,000	51,496,000	−199,000

Operation of plant and facilities:								
Engineer supervision	6,483,538	6,779,000	−24,000	+131,000		−16,000	6,870,000	+91,000
Plant	16,440,987	16,676,000	−63,000	+78,000	+17,000	−104,000	16,604,000	−72,000
Utility	13,308,331	13,984,000	−52,000	+58,000	+74,000	+1,250,000	15,314,000	+1,330,000
Motor transportation	6,074,233	6,414,000	−21,000	+43,000		−62,000	6,374,000	−40,000
Other engineering operations	16,443,958	17,219,000	−64,000	+146,000	+9,000	−323,000	16,987,000	−232,000
Subtotal	58,751,047	61,072,000	−224,000	+456,000	+100,000	+745,000	62,149,000	+1,077,000
Maintenance and repair of plant and facilities:								
Buildings	17,143,055	18,859,000	−61,000	+114,000		+1,978,000	20,890,000	+2,031,000
Building service equipment and systems	16,159,850	14,819,000	−51,000	+86,000		+1,764,000	16,618,000	+1,799,000
Operating equipment	9,448,636	9,002,000	−25,000	+38,000		+982,000	9,997,000	+995,000
Utility systems	3,589,730	3,872,000	−11,000	+17,000		+419,000	4,297,000	+425,000
Other facilities	3,756,072	3,659,000	−11,000	+22,000		+378,000	4,048,000	+389,000
Subtotal	50,097,343	50,211,000	−159,000	+277,000		+5,521,000	55,850,000	+5,639,000
Asset acquisitions	21,253,018	22,792,000			+223,000	+318,000	23,333,000	+541,000
Inpatient total	897,382,257	943,254,000	−3,356,000	+15,432,000	+3,253,000	+9,320,000	967,903,000	+24,649,000
Other operating expense:								
Agricultural activities	82,724	83,000					83,000	
Operation of personnel quarters	2,163,361	2,218,000	−8,000	+10,000		−16,000	2,204,000	−14,000
Benef. Travel, Supp. for Indig., etc	1,444,557	1,474,000	−4,000	+3,000	+6,000		1,479,000	+5,000
Pros. Apl. & Sen. Aids	2,976,878	3,075,000	−10,000	+28,000		+17,000	3,110,000	+35,000
Contract Hospital	16,084,442	16,761,000	−46,000		−402,000	+366,000	16,679,000	−82,000
State homes	7,378,261	7,481,000	−20,000				7,461,000	−20,000
Subtotal	30,130,223	31,092,000	−88,000	+41,000	−396,000	+367,000	31,016,000	−76,000
Total gross costs	927,512,480	974,346,000	−3,444,000	+15,473,000	+2,857,000	+9,687,000	998,919,000	+24,573,000
Less: Q8&L	8,476,963	8,562,000				−441,000	9,003,000	−441,000
Net total costs	919,035,517	965,784,000	−3,444,000	+15,473,000	+2,857,000	+9,246,000	989,916,000	+24,132,000

Mr. BOLAND. This is a further breakdown of the comparison of costs by activity. It shows comparison between 1963, 1964, and 1965.

We shall also put 21–39 in the record.

(The page follows:)

Comparative analysis of costs and employment

Cost by object	Fiscal year 1963 actual		Fiscal year 1964 estimated		Fiscal year 1965 estimated		Increase (+) or decrease (−), 1965 over 1964	
	Full-time employees	Total cost	Full-time employees	Total cost	Full-time employees	Total cost	Full-time employees	Total cost
10 Personal services and benefits:								
Consultations and attendings	874	$8,681,889	877	$8,776,000	882	$8,792,000	+5	+$16,000
Nurses	15,161	108,552,973	15,199	114,899,000	15,406	117,934,000	+207	+3,035,000
Dentists	555	8,423,964	556	8,689,000	556	8,748,000		+59,000
Physicians	5,206	74,568,148	5,235	77,656,000	5,285	79,951,000	+50	+2,295,000
Clincial and counseling psychiatrists	554	6,317,578	566	6,688,000	568	6,781,000	+2	+93,000
Wage rate employees	35,259	173,940,087	35,131	182,000,000	35,249	178,475,000	+118	−3,525,000
Purchase and hire	113	742,260	113	749,000	113	746,000		−3,000
Other personnel	61,777	354,586,164	61,591	377,265,000	62,142	391,067,000	+551	+13,802,000
Subtotal	119,499	735,813,063	119,268	776,722,000	120,201	792,494,000	+933	+15,772,000
21 Travel:								
Employee travel		492,454		462,000		462,000		
Other travel		554,525		550,000		559,000		+9,000
Subtotal		1,046,979		1,012,000		1,021,000		+9,000
22 Transportation of things		1,400,228		1,409,000		1,416,000		+7,000
23 Rent, communications, and utility services:								
Communications		3,601,944		3,708,000		3,779,000		+71,000
Rental of motion picture film		1,048,268		1,038,000		1,032,000		−6,000
Utility services		12,286,985		13,108,000		14,046,000		+938,000
Rental of medical and other equipment		639,902		675,000		690,000		+15,000
Subtotal		17,577,099		18,529,000		19,547,000		+1,018,000
24 Printing and reproduction		907,469		861,000		858,000		−3,000
25 Other contractual services:								
Repair of prosthetic appliances		59,095		61,000		62,000		+1,000
Laundry services		1,022,532		1,030,000		1,031,000		+1,000
Medical, nursing, and dental fees		1,069,837		1,080,000		1,077,000		−3,000
Compensated therapy		1,223,428		2,421,000		2,412,000		−9,000
Repair of furniture and equipment		1,822,179		1,696,000		1,688,000		−8,000
M. & R. contractual services		5,620,819		5,605,000		11,545,000		+5,940,000
Contract hospitalization		16,084,442		16,761,000		16,679,000		−82,000
Other medical services		1,575,603		1,570,000		1,570,000		
Subtotal		28,477,935		30,224,000		36,064,000		+5,840,000

Comparative analysis of costs and employment—Continued

Cost by object	Fiscal year 1963 actual		Fiscal year 1964 estimated		Fiscal year 1965 estimated		Increase (+) or decrease (−), 1965 over 1964	
	Full-time employees	Total cost	Full-time employees	Total cost	Full-time employees	Total cost	Full-time employees	Total cost
26 Supplies and materials:								
Provisions		45,693,907		45,565,000		45,500,000		−65,000
Drugs and medicines		18,509,878		19,147,000		19,923,000		+776,000
Blood and blood products		2,020,058		2,086,000		2,138,000		+52,000
Medical and dental supplies		16,163,581		16,604,000		16,964,000		+360,000
Fuels		6,269,305		6,307,000		6,424,000		+117,000
Operating supplies		8,540,575		8,720,000		8,806,000		+86,000
M. & R. supplies		9,555,555		9,519,000		9,531,000		+12,000
Prosthetic appliances		1,506,865		1,515,000		1,530,000		+15,000
Linens		3,658,680		3,692,000		3,715,000		+23,000
Office supplies		1,651,799		1,670,000		1,681,000		+11,000
Other medical supplies		957,006		971,009		993,000		+22,000
Subtotal		114,527,209		115,796,000		117,205,000		+1,409,000
31 Equipment:								
Passenger vehicles		234,512		382,000		228,000		−154,000
Nonpassenger vehicles		414,592		572,000		547,000		−25,000
Furniture and fixtures		4,553,038		4,861,000		5,022,000		+161,000
Medical, dental, and scientific equipment		8,442,572		8,850,000		8,856,000		+6,000
Utility and other operation		3,545,127		5,154,000		5,728,000		+574,000
Subtotal		17,189,841		19,819,000		20,381,000		+562,000
32 Lands and structures		3,194,396		2,493,000		2,472,000		−21,000
41 Grants, subsidies, and contracts		7,378,261		7,481,000		7,461,000		−20,000
Total, gross costs		927,512,480		974,346,000		998,919,000		+24,573,000

MAINTENANCE AND REPAIR

Mr. BOLAND. There is a large increase here of $5,944,000. What is that, maintenance and repair?

Mr. MONK. That is right, maintenance and repair by contractual service.

Mr. BOLAND. Does this go to all of your hospitals?

Mr. MONK. Yes, sir; this increase is an acceleration of the maintenance and repair program to the tune of about $6 million this year.

Mr. BOLAND. What will it be next year, do you think?

Mr. MONK. We would expect it to be about the same.

Mr. BOLAND. You mean around $11 million?

Mr. MONK. Yes, sir.

Mr. THOMAS. Is any part of this charged against the construction budget?

Mr. MONK. No, sir.

Mr. THOMAS. Where is your line of demarcation? You used to have two programs, over and under a certain dollar amount. Now you combine them. What does this cover?

Mr. MONK. This covers recurring repair and maintenance, not capital improvement.

Mr. THOMAS. What is your dollar limitation?

Mr. SCHWEICKART. $5,000.

Mr. THOMAS. Anything above $5,000 goes under your construction contract?

Mr. SCHWEICKART. Yes, sir.

Mr. THOMAS. Go ahead.

OTHER INPATIENT COST CHANGES

Mr. BOLAND. Page 21–43 gives the breakdown of employment, workload, objects. Rent, communications, and utilities goes up $991,000, 1965 over 1964.

Mr. WISE. Central air-conditioning systems in 19 hospitals plus the fact that the utility rates have increased about 6 percent a year average over the last 7- or 8-year period.

Mr. BOLAND. Do you have a narrative on that somewhere?

Mr. WISE. Yes, sir; page 21–13 and also 21–14.

Mr. BOLAND. We shall put into the record at this point pages 21–13 and 21–14.

(The pages follow:)

INCREASED USAGE OF UTILITIES, DRUGS, MEDICINES, AND MEDICAL SUPPLIES AND EXPENSE OF OPERATING CENTRAL AIR-CONDITIONING SYSTEMS, $2,791,000

The $2,791,000 request is comprised of (1) $941,000 additional operating expense for newly installed air-conditioning systems; (2) $441,000 additional expense under Object Class 23 for increased utilization of utilities and related items, exclusive of the increased utility utilization associated with the new central air-conditioning systems; and (3) $1,409,000 additional expense under Object Class 26 for increased utilization of drugs, blood, blood products, medicines, and medical supplies.

Newly installed central air-conditioning systems will be in operation at 19 or more hospitals prior to the close of fiscal year 1965. Average annual expenditure increases of nearly $50,000 per hospital will be required to provide operating personnel, mechanics, maintenance supplies, steam, and electricity for operation

of these systems. The $941,000 increased operating cost includes $407,000 for salaries of 61 additional operating personnel and mechanics, $64,000 for maintenance supplies and materials, and $470,000 for steam and electricity costs.

Increased utilization of utilities and related Object Class 23 items, other than as associated with the new central air-conditioning systems, results from technological advances in the development and utilization of new electromedical equipment and the increasing number of veterans receiving medical care and treatment, for whom greater outlays for communications and equipment rental expenses are required.

Usage of drugs, blood, blood products, medicines, and medical supplies increases sharply each year. This increased utilization stems jointly from (1) the increased numbers of patients treated in VA hospitals as a result of enactment of Public Law 86-639 (authorizing prebed and postbed occupancy treatment); (2) a greater percentage of the patient population in VA hospitals receiving acute intensive treatment during their period of hospitalization; and (3) the increasing numbers of patients developing multiple chronic medical infirmities as the veteran population ages. As a result, additional outlays are necessary for these Object Class 26 items.

These trends have become increasingly apparent during each of the past several years, and are substantiated by the steady rise in expenditures reported under the Object 23 and 26 classifications. Hospital, domiciliary, and clinic directors have had no option in meeting these rising costs other than to reduce the number of treatment staff available to provide care and treatment to patients and members. The increment requested to meet these rising expenses is necessary for the agency to maintain an adequate treatment staff and continue providing quality medical service to eligible beneficiaries.

Mr. BOLAND. On "Supplies and materials" you are looking for $109,783,000 in 1965 compared to $108,423,000 in 1964. This represents an increase of $1,360,000. Where is your narrative on that? Is that on page 21-13?

Mr. WISE. Yes, sir. The preponderant part of that increase is in this increase on 21-13 for utilities, drugs, medicines, medical supplies.

Mr. THOMAS. The closest proximation he has to justification is 21-48. You might turn to that. It looks pretty indefinite. It ought to be strengthened considerably.

COST OF DRUGS, MEDICINE, AND MEDICAL SUPPLIES

Mr. BOLAND. Drugs and medicines go up by $736,000 in this item. What causes this increase?

Mr. WISE. There is the increase in patients treated. There is an increase in utilization of drugs as new chemotherapies are developed.

Mr. BOLAND. Is there also an increase in cost of drugs?

Mr. WISE. In some instances; yes.

Mr. BOLAND. Medical and dental supplies go up by $357,000. Is this attributable to increased cost of supplies?

Mr. WISE. Many of the medical and dental supplies, drugs, medical supplies, surgical instruments, small expendable items, all in these categories, they are principally these items that are used in the direct treatment of patients.

Mr. THOMAS. It covers other medical supplies to the tune of $117 million.

Mr. GLEASON. That is the whole total.

Mr. MONK. $953,000.

Mr. THOMAS. What do you mean by other medical supplies?

Mr. WISE. It is all others not classified here. It could be issues to indigent patients, personal comfort items, medical supplies other than drugs or medicines.

Mr. THOMAS. What do you mean by personal comfort items? There is no such thing as comfort items in a hospital?

Mr. WISE. To indigent patients there are some, no longer tobacco.

Mr. BOLAND. Utility services go up by $938,000. What is this increase due to?

Mr. WISE. Principally the central air conditioning in the new installations, along with the price increases that I have told you about.

Mr. BOLAND. Communications increase $71,000. What is this attributed to?

Mr. WISE. In part to the new hospitals, larger hospitals, coming in, and rate increases.

GSA TELECOMMUNICATIONS SYSTEM

Mr. BOLAND. You are now part of GSA telecommunications setup?

Mr. WISE. Yes, sir.

Mr. BOLAND. How much do you have in here for that particular program? Do they ask you to put an item in your budget for this program for the telecommunications setup?

Mr. GLEASON. Yes, sir.

Mr. BUDD. On the hospital side there is very little at this point because VA hospitals have their own switchboards. Only a few locations are our hospitals associated with GSA centrex system.

Mr. BOLAND. You will be associated?

Mr. BUDD. Yes, sir; this is the next phase planned. We have only gone to the first phase, one-seventh of the total plan.

Dr. ENGLE. Less than 17 installations now.

HOSPITAL UNIT COSTS

Mr. BOLAND. We shall put the table on page 21–48 in the record, and also 21–44.

(The pages follow:)

All Hospitals

Comparative analysis of unit and total costs

Costs by object	Base factor	Fiscal year 1963, actual		Fiscal year 1964, estimated		Fiscal year 1965, estimated		Increase (+) or decrease (−) 1965 over 1964	
		Full-time employees	Total cost	Full-time employees	Total cost	Full-time employees	Total cost	Full-time employees	Total cost
		Unit cost		*Unit cost*		*Unit cost*		*Unit cost*	
10 Personal services and benefits:									
Consultants and attorneys		865	$8,590,555	866	$8,660,000	871	$8,675,000	+5	+$15,000
Nurses		15,082	107,909,301	15,118	114,180,000	15,321	117,145,000	+203	+2,965,000
Dentists		515	7,811,860	514	8,001,000	514	7,997,000		−4,000
Physicians		5,127	73,395,241	5,152	76,334,000	5,198	78,521,000	+46	+2,187,000
Clinical and counseling psychiatrist		534	6,081,713	538	6,329,000	538	6,379,000		+50,000
Wage rate employees		33,389	164,751,652	33,261	172,350,000	33,379	169,011,000	+118	−3,339,000
Purchase and hire		103	671,187	103	677,000	103	674,000		−3,000
Other personnel		60,364	346,211,498	60,426	369,261,000	60,931	382,627,000	+505	+13,366,000
Subtotal		115,979	715,423,007	115,978	755,792,000	116,855	771,029,000	+877	+15,237,000
21 Travel:									
Employee travel	Employees	4.162	482,679	3.889	451,000	3.859	451,000	−.030	
Other travel	Average daily patient load	4.851	534,568	4.815	531,000	4.895	540,000	+.080	+9,000
Subtotal			1,017,247		982,000		991,000		+9,000
22 Transportation of things	Average daily patient load	12.242	1,318,999	12.324	1,359,000	12.382	1,366,000	+.058	+7,000
23 Rent, communications, and utility services:									
Communications	Operating beds	29.201	3,512,999	30.032	3,615,000	30.653	3,686,000	+.621	+71,000
Rental motion picture, film	Average daily patient load	8.657	953,989	8.516	939,000	8.457	933,000	−.059	−6,000
Utility services	Operating beds	97.446	11,723,091	104.028	12,522,000	111.735	13,436,000	+7.707	+914,000
Rental of medical and other equipment	Average daily patient load	5.716	629,845	6.013	663,000	6.119	675,000	+.106	+12,000
Subtotal			16,819,924		17,739,000		18,730,000		+991,000
24 Printing and reproduction	Average daily patient load	8.060	888,153	7.636	842,000	7.605	839,000	−.031	−3,000

25	Other contractual services:									
	Repair prosthetic appliances	do	.446	49,128	.463	51,000	.471	52,000	+.008	+1,000
	Laundry services	do	8.079	890,299	8.107	894,000	8.035	893,000	−.012	−1,000
	Medical, nursing, and dental fees	do	9.558	1,053,207	9.622	1,061,000	9.590	1,058,000	−.032	−3,000
	Compensated therapy	do	4.039	445,059	9.032	996,000	8.947	987,000	−.085	−9,000
	Repair of furniture and equipment	Operating beds	14.494	1,743,641	13.425	1,616,000	13.372	1,608,000	−.053	−8,000
	M. & R. contractual services	do	44.198	5,317,236	44.031	5,300,000	90.130	10,838,000	+46.099	+5,538,000
	Other medical services	Average daily patient load	13.616	1,500,411	13.558	1,495,000	13.515	1,491,000	−.043	−4,000
	Subtotal			10,998,981		11,413,000		16,927,000		+5,514,000
26	Supplies and materials:									
	Provisions	Average daily patient load	374.731	41,293,108	373.450	41,180,000	372.795	41,126,000	−.655	−54,000
	Drugs and medicines	Patient treatment	25.252	18,092,228	25.915	18,659,000	26.568	19,395,000	+.653	+736,000
	Blood and blood products	do	2.831	2,018,243	2.894	2,084,000	2.926	2,136,000	+.032	+52,000
	Medical and dental supplies	do	22.403	15,970,688	22.771	16,395,000	22.948	16,752,000	+.177	+357,000
	Fuels	Operating beds	47.563	5,722,073	47.711	5,743,000	48.682	5,854,000	+.971	+111,000
	Operating supplies	do	65.419	7,870,125	66.835	8,045,000	67.601	8,129,000	+.766	+84,000
	M. & R. supplies	do	73.425	8,833,327	73.099	8,799,000	73.231	8,806,000	+.132	+7,000
	Prosthetic appliances	Patient treatment	1.957	1,395,169	1.944	1,400,000	1.937	1,414,000	−.007	+14,000
	Linens	Average daily patient load	32.025	3,528,951	32.212	3,552,000	32.379	3,572,000	+.167	+20,000
	Office supplies	Employees	13.984	1,621,853	14.098	1,635,000	14.086	1,646,000	−.012	+11,000
	Other medical supplies	Patient treatment	1.292	921,317	1.293	931,000	1.305	953,000	+.012	+22,000
	Subtotal			107,177,082		108,423,000		109,783,000		+1,360,000
31	Equipment:									
	Passenger vehicles	Replacement critical		224,168		371,000		222,000		−149,000
	Nonpassenger vehicles	do		397,255		543,000		526,000		−17,000
	Furniture and fixtures	Operating beds	35.153	4,229,059	37.517	4,516,000	39.377	4,735,000	+1.860	+219,000
	Medical, dental, and scientific equipment	do	69.319	8,339,301	69.809	8,403,000	72.050	8,664,000	+2.241	+261,000
	Utilities and other operations	do	28.675	3,449,709	41.821	5,034,000	46.944	5,645,000	+5.123	+611,000
	Subtotal			16,639,492		18,867,000		19,792,000		+925,000
32	Lands and structures	do	25.232	3,035,464	19.548	2,353,000	19.435	2,337,000	−.113	−16,000
	Total gross costs			873,348,349		917,770,000		941,794,000		+24,024,000

The amount requested provides for expenses necessary for the maintenance and operation of Veterans' Administration hospital facilities and for the care and treatment of eligible beneficiaries admitted therein as authorized by law.

Total costs and cost per day by type of hospital

	Fiscal year 1963, actual		Fiscal year 1964, estimated		Fiscal year 1965, estimated		Increase (+) or decrease (−) 1965 over 1964	
	Costs	Cost per patient-day	Costs	Cost per patient-day	Costs	Cost per patient-day	Costs	Cost per patient-day
Neuropsychiatric hospitals	$291,806,412	$14.611	$307,190,000	$15.366	$316,311,000	$15.898	+$9,121,000	+$0.532
General hospitals	581,541,937	28.330	610,580,000	29.581	625,483,000	30.310	+14,903,000	+.729
Total gross costs	873,348,349		917,770,000		941,794,000		+24,024,000	
Less quarters, subsistance, and laundry	8,250,546		8,330,000		8,760,000		−430,000	
Net total costs	865,097,803		909,440,000		933,034,000		+23,594,000	

NOTE.—Costs per patient-day include direct costs of patient care and exclude costs such as maintenance of quarters, beneficiary travel; etc., which are included in the total gorss costs.

Comparative full-time equivalent employment summary by type of hospital

	Fiscal year 1963, actual		Fiscal year 1964, estimated		Fiscal year 1965, estimated		Increase (+) or decrease (−), 1965 over 1964	
	VA employee	Consultants	VA employee	Consultants	VA employee	Consultants	VA employee	Consultants
Neuro-psychiatric hospitals	40,513	125	40,788	126	41,282	126	+494	
General hospitals	74,601	740	74,324	740	74,702	745	+378	+5
Total	115,114	865	115,112	866	115,984	871	+872	+5

NOTE.—Consultant employment computed at rate of each visit being 1/20 of a man-month or 240 visiting days per man-year.

HOSPITAL PER DIEM COSTS

Mr. BOLAND. This shows total cost and the cost per day by type of hospital. We have a breakdown here of the NP hospitals. In 1963 the cost was $14.611, an increase to $15.898 in 1965. For G.M. & S. it is $28.330 in 1963 and increases to $30.310 in 1965. How do your rates compare with private hospitals per day? This is something we get into every year.

Dr. MCNINCH. The rate for the private hospitals, the nearest comparable to our general hospitals is the non-Federal general short-term hospital, which is around $36 a day. I have here a chart showing increase in per diem which the chairman may be interested in, a comparison between non-Federal hospitals and Veteran hospitals in G.M. & S. hospitals.

Mr. OSTERTAG. Did you give us a comparative figure?

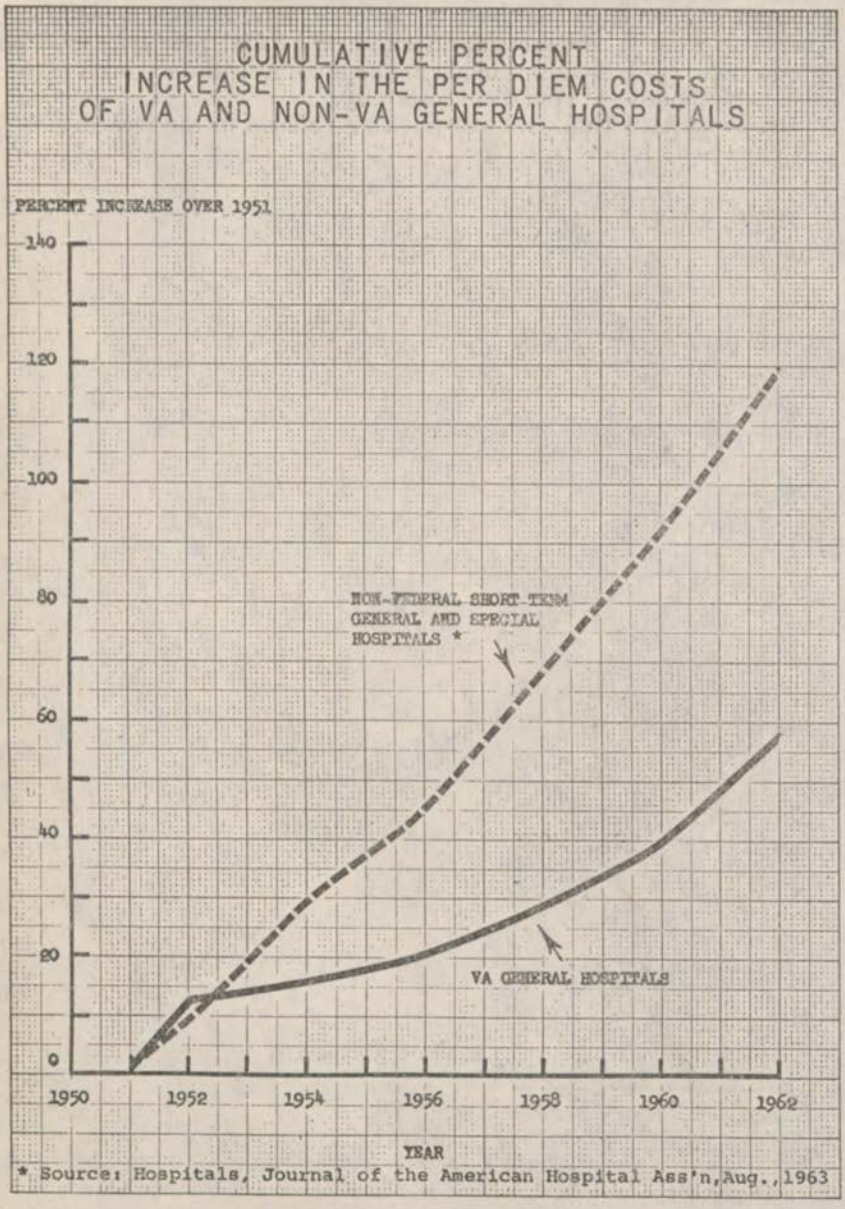
Dr. MCNINCH. $36.

Mr. OSTERTAG. For general medical.

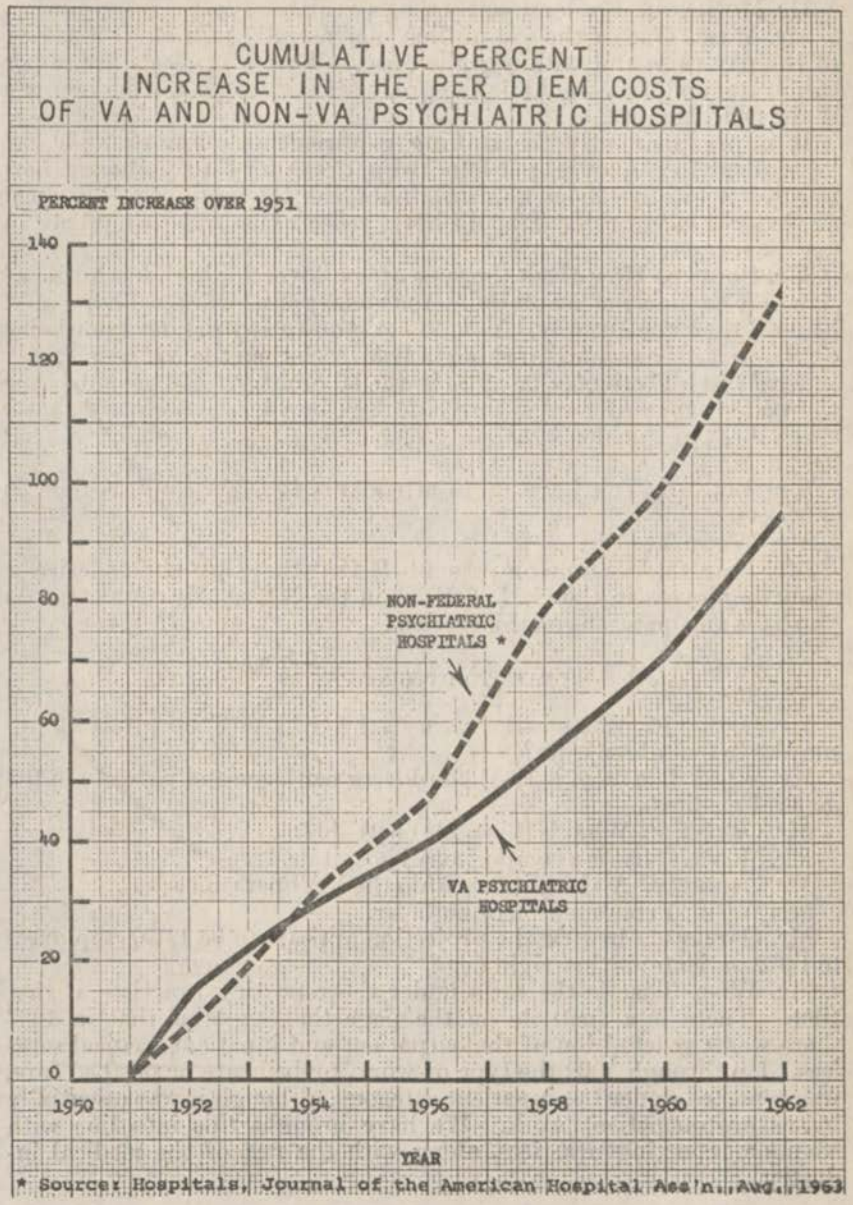
Dr. MCNINCH. It is very difficult to make these comparisons. It does not include physician fees. Each year more nurses are combined. However, they take depreciation on their capital investment which we do not. So I have not made a comparison in these charts of the cost, per se, increase in per diem costs only.

Mr. BOLAND. I think we can put those charts in the record.

(The charts follow:)



* Source: Hospitals, Journal of the American Hospital Ass'n, Aug., 1963


CUMULATIVE PERCENT
INCREASE IN THE PER DIEM COSTS
OF VA AND NON-VA PSYCHIATRIC HOSPITALS
PERCENT INCREASE OVER 1951
140
120
100
80
60
40
20
0
NON-FEDERAL
PSYCHIATRIC
HOSPITALS *
VA PSYCHIATRIC
HOSPITALS
1950
1952
1954
1956
1958
1960
1962
YEAR
* Source: Hospitals, Journal of the American Hospital Assn., Aug. 1963

INCREASES IN HOSPITAL PER DIEM COSTS

Mr. BOLAND. To what do you attribute the increase in both NP and general hospitals in these tables?

Dr. MCNINCH. Predominantly the pay raise.

Mr. WISE. Out of the $24 million increase, $17 million of it is cost of the pay raise and within-grade raises. That all reflects in the per diem rate, and that would be the predominant reason for the increase in the per diem rate.

It is predominantly the staffing requirements. For example, we have about 75 employees per hundred patients for the pyschiatric hospitals, but we have about 134 per hundred for the treatment of medical or surgical categories. That in itself reflects the broad difference in per diem rates.

Mr. BOLAND. How about the type of employee for both institutions? Are they similar, the people doing the same type of work? They would be paid the same anyway. You do not require any greater knowledge on the part of somebody working in G.M. & S. than the NP hospital?

Mr. WISE. There may be more in the laboratory. We have to cover a broader range of services in G.M. & S. hospitals. You will find a much heavier incidence of aids or nursing-type personnel in NP hospitals.

Mr. BOLAND. You have more attendants in NP hospitals than in G.M. & S.?

Mr. WISE. Yes, sir.

Mr. BOLAND. We note on page 21–44 that there are almost twice as many employees in the G.M. & S. as in the NP's. Mr. Ostertag, do you have any questions on this section?

STAFF TO PATIENT RATIOS

Mr. OSTERTAG. What is the ratio in the G.M. & S. hospitals of employees to that of patients?

Mr. WISE. The ratio is 1,344 employees per thousand patients in the general medical.

Mr. OSTERTAG. What is this table on 21–46?

Mr. MONK. That is a composite, all hospitals.

Mr. OSTERTAG. All hospitals within the VA operation.

Mr. WISE. A combination of both, sir.

Mr. OSTERTAG. In 1962 the projection appears to be 1,070 employees to 1,072 patients; is that right?

Mr. WISE. That is the ratio under the reporting practices at that time. There is a footnote on the page that explains that in 1963 there was a redefinition of the outpatient and inpatient medical services. Up through 1962 the type of work, prebed care or postbed care, was reported under the inpatient category, although it was essentially by nature outpatient work. We have brought this into line with common reporting practices, along with the rest of the medical industry.

Neuropsychiatric Hospitals

Mr. Ostertag. We will turn to NP hospitals under inpatient care. On page 21–50 it points out that the estimate provides an average of 57,445 operating beds and 54,196 patient load in neuropsychiatric hospitals in fiscal 1965 or a decrease of 145 operating beds and a decrease of 101 patient load averages from levels anticipated in 1964. These decreases are necessitated by construction work that will be in progress in 1965.

Is that in line with what you have previously told us?

Mr. Wise. Those are what Mr. Boland asked about this morning—Bedford, Mass.; North Point, N.Y.; Perry Point, Md.

Mr. Ostertag. The estimate contemplates 494 additional treatment staff or establishment of medical and surgical bed sections at certain hospitals and provides for more adequate care and treatment of psychiatric medically infirm patients and increasing the number of patients treated. I think the summary on 21–51 and the table on 21–54 should be inserted in the record and also 21–56.

(The pages follow:)

Neuropsychiatric Hospitals

Employment, workload and object summary

	Fiscal year 1963, actual	Fiscal year 1964, estimated	Fiscal year 1965, estimated	Increase (+) or Decrease (−), 1965 over 1964
Number of hospitals	41	41	41	
Average employment	40,638	40,914	41,408	+494
Average payroll cost	$5,897	$6,217	$6,299	+$82
Operating beds	57,601	57,590	57,445	−145
Occupancy rate (percent)	94.4	94.3	94.3	
Average daily patient load	54,386	54,297	54,196	−101
Psychiatric	50,202	50,030	49,749	−281
Medical (including tuberculosis and neuropsychiatric)	3,275	3,340	3,460	+120
Surgical	909	927	987	+60
Patients treated	119,859	121,100	122,800	+1,700
Ratio of employees (including consultants) to operating beds	.706	.710	.721	+.011
Ratio of employees (including consultants) to average daily patient load	.747	.754	.764	+.010
Costs by object:				
11 Personnel compensation	$222,376,891	$236,044,000	$241,869,000	+$5,825,000
12 Personnel benefits	17,253,380	18,313,000	18,972,000	+659,000
21 Travel and transportation of persons:				
Employee	134,905	140,000	140,000	
All other	126,057	123,000	123,000	
22 Transportation of things	403,323	412,000	411,000	−1,000
23 Rent, communications, and utilities	5,039,604	5,314,000	5,449,000	+135,000
24 Printing and reproduction	226,241	216,000	215,000	−1,000
25 Other services	2,888,666	3,172,000	5,169,000	+1,997,000
(Medical and dental fees)	(312,044)	(316,000)	(315,000)	−(1,000)
26 Supplies and materials	37,632,117	38,174,000	38,407,000	+233,000
31 Equipment	4,962,700	4,526,000	4,805,000	+279,000
Replacement equipment	(3,873,110)	(4,053,000)	(4,215,000)	+(162,000)
Initial equipment for new facilities	(51,028)	(4,000)	(300,000)	+(296,000)
Initial equipment for existing facilities	(1,038,562)	(469,000)	(290,000)	−(179,000)
32 Lands and structures	762,528	756,000	751,000	−5,000
Total, gross costs	291,806,412	307,190,000	316,311,000	+9,121,000
Less: Quarters, subsistence, and laundry	2,780,475	2,842,000	2,987,000	−145,000
Net total costs	289,025,937	304,348,000	313,324,000	+8,976,000

Neuropsychiatric Hospitals

Comparative analysis of unit and total costs—Continued

Costs by object	Base factor	Fiscal year 1963, actual		Fiscal year 1964, estimated		Fiscal year 1965, estimated		Increase (+) or decrease (−) 1965 over 1964	
		Full-time employees	Total cost	Full-time employees	Total cost	Full-time employees	Total cost	Full-time employees	Total cost
10 Personal services and benefits:									
Consultants and attendings		125	$1,574,587	126	$1,590,000	126	$1,584,000		−$6,000
Nurses		3,584	25,831,334	3,644	27,507,000	3,769	28,973,000	+125	+1,466,000
Dentists		157	2,351,987	158	2,419,000	158	2,436,000		+17,000
Physicians		939	14,169,661	976	15,114,000	1,009	15,737,000	+33	+623,000
Clinical and counseling psychiatrists		307	3,442,850	311	3,607,000	311	3,658,000		+51,000
Wage rate employees		11,728	58,235,201	11,716	61,092,000	11,727	59,798,000	+11	−1,294,000
Purchase and hire		35	220,125	35	222,000	35	221,000		−1,000
Other personnel		23,763	133,804,526	23,948	142,806,000	24,273	148,434,000	+325	+5,628,000
Subtotal		40,638	239,630,271	40,914	254,357,000	41,408	260,841,000	+494	+6,484,000
		Unit cost				*Unit cost*		*Unit cost*	
21 Travel:									
Employee travel	Employee	3.320	134,905	3.422	140,000	3.381	140,000	−.041	
Other travel	Average daily patient load	2.318	126,057	2.265	123,000	2.270	123,000	+.005	
Subtotal			260,962		263,000		263,000		
22 Transportation of things	Average daily patient load	7.416	403,323	7.588	412,000	7.584	411,000	−.004	−1,000
23 Rent, communication, and utility services:									
Communications	Operating beds	16.563	954,039	16.965	977,000	17.129	984,000	+.164	+7,000
Rental, motion picture film	Average daily patient load	5.674	308,584	5.507	299,000	5.480	297,000	−.027	−2,000
Utility services	Operating beds	61.187	3,524,435	65.428	3,768,000	67.769	3,893,000	+2.341	+125,000
Rental of medical and other equipment	Average daily patient load	4.644	252,546	4.973	270,000	5.074	275,000	+.101	+5,000
Subtotal			5,039,604		5,314,000		5,449,000		+135,000
24 Printing and reproduction	Average daily patient load	4.160	226,241	3.978	216,000	3.967	215,000	−.011	−1,000

25	Other contractual services:									
	Repair prosthetic appliances	do	.195	10,632	.221	12,000	.240	13,000	+.019	+1,000
	Laundry services	do	.252	13,731	.276	15,000	.295	16,000	+.019	+1,000
	Medical, nursing, and dental fees	do	5.728	312,044	5.820	316,000	5.812	315,000	−.008	−1,000
	Compensated therapy	do	3.140	170,753	8.288	450,000	8.137	441,000	−.151	−9,000
	Repair furniture and equipment	Operating beds	7.819	450,402	7.883	454,000	7.903	454,000	+.020	
	Medical and rehabilitative contractual services.	do	26.178	1,507,890	26.046	1,500,000	60.997	3,504,000	+34.951	+2,004,000
	Other medical services	Average daily patient load	7.782	423,214	7.827	425,000	7.860	426,000	+.033	+1,000
	Subtotal			2,888,666		3,172,000		5,169,000		+1,997,000
26	Supplies and materials:									
	Provisions	Average daily patient load	345.696	18,801,035	343.481	18,650,000	342.885	18,583,000	−.596	−67,000
	Drugs and medicines	Patient treatment	38.233	4,582,602	42.106	5,099,000	44.226	5,431,000	+2.120	+332,000
	Blood and blood products	do	.757	90,707	.776	94,000	.806	99,000	+.030	+5,000
	Medical and dental supplies	do	24.733	2,964,518	24.773	3,000,000	24.666	3,029,000	−.107	+29,000
	Fuels	Operating beds	43.367	2,497,986	43.410	2,500,000	43.677	2,509,000	+.267	+9,000
	Operating supplies	do	56.191	3,236,684	57.701	3,323,000	57.324	3,293,000	−.377	−30,000
	Medical and rehabilitation supplies	do	58.603	3,375,568	59.021	3,399,000	58.125	3,339,000	−.896	−60,000
	Prosthetic appliances	Patient treatment	1.311	157,186	1.321	160,000	1.303	160,000	−.018	
	Linens	Average daily patient load	22.038	1,198,576	22.359	1,214,000	22.658	1,228,000	+.299	+14,000
	Office supplies	Employees	10.403	422,740	10.388	425,000	10.264	425,000	−.124	
	Other medical supplies	Patients treated	2.541	304,515	2.560	310,000	2.533	311,000	−.027	+1,000
	Subtotal			37,632,117		38,174,000		38,407,000		+233,000
31	Equipment:									
	Passenger vehicles	(Replacement, critical)		100,247		160,000		89,000		−71,000
	Nonpassenger vehicles	do		226,891		241,000		196,000		−45,000
	Furniture and fixtures	Operating beds	30.026	1,729,499	25.352	1,460,000	26.478	1,521,000	+1.126	+61,000
	Medical, dental, and scientific equipment	do	29.168	1,680,090	19.847	1,143,000	21.464	1,233,000	+1.617	+90,000
	Utility and other operations	do	21.284	1,225,973	26.428	1,522,000	30.742	1,766,000	+4.314	+244,000
	Subtotal			4,962,700		4,526,000		4,805,000		+279,000
32	Lands and structures	Operating beds	31.238	762,528	13.127	756,000	13.073	751,000	−.054	−5,000
	Total gross costs			291,806,412		307,190,000		316,311,000		+9,121,000

Distribution of patient load and beds by hospital

	Actual, fiscal year 1963 average			Estimated, fiscal year 1964 average			Estimated, fiscal year 1965 average		
	Operating beds	Average daily patient load	Percent utilization	Operating beds	Average daily patient load	Percent utilization	Operating beds	Average daily patient load	Percent utilization
American Lake, Wash	904	842	93	904	842	93	904	842	93
Augusta, Ga	1,323	1,237	93	1,323	1,237	93	1,323	1,237	93
Battle Creek, Mich	2,000	1,900	95	2,000	1,866	93	2,000	1,866	93
Bedford, Mass	1,512	1,432	95	1,512	1,400	93	1,475	1,350	92
Biloxi, Miss (Gulfport)	904	873	97	904	873	97	904	873	97
Brecksville, Ohio	783	672	86	994	900	91	994	900	91
Brockton, Mass	988	945	96	988	945	96	988	945	96
Canandaigua, N.Y	1,700	1,603	94	1,700	1,603	94	1,700	1,603	94
Chillicothe, Ohio	2,080	1,940	93	2,080	1,932	93	2,080	1,932	93
Coatesville, Pa	1,602	1,544	96	1,602	1,544	96	1,602	1,544	96
Danville, Ill	1,699	1,613	95	1,680	1,613	96	1,680	1,613	96
Downey, Ill	2,487	2,333	94	2,487	2,330	94	2,487	2,330	94
Fort Lyon, Colo	681	663	97	681	660	97	681	660	97
Fort Meade, S. Dak	720	634	88	720	631	88	720	631	88
Jefferson Barracks, Mo	815	783	96	815	783	96	815	783	96
Knoxville, Iowa	1,515	1,411	93	1,515	1,411	93	1,515	1,411	93
Lebanon, Pa	1,065	1,021	96	1,096	1,008	92	1,096	1,008	92
Lexington, Ky	1,169	1,062	91	1,125	1,058	94	1,125	1,058	94
Los Angeles, Calif	2,021	1,953	97	2,021	1,910	95	2,021	1,910	95
Lyons, N.J	2,009	2,005	100	2,009	2,005	100	2,009	2,005	100
Marion, Ind	1,650	1,548	94	1,650	1,548	94	1,650	1,548	94
Montrose, N.Y	1,830	1,759	96	1,900	1,814	95	1,900	1,814	95
Murfreesboro, Tenn	1,275	1,197	94	1,275	1,197	94	1,275	1,197	94
Northampton, Mass	1,105	1,073	97	1,105	1,073	97	1,105	1,073	97
North Little Rock, Ark	2,062	1,981	96	2,062	1,980	96	2,062	1,980	96
Northport, N.Y	2,450	2,346	96	2,340	2,187	93	2,277	2,166	95
Palo Alto, Calif	2,120	1,994	94	2,123	2,018	95	2,123	2,018	95
Perry Point, Md	1,604	1,463	91	1,500	1,360	91	1,455	1,330	91
Pittsburgh, Pa	951	904	95	951	905	95	951	905	95
Roseburg, Oreg	659	606	92	670	607	91	670	607	91
St. Cloud, Minn	1,379	1,258	91	1,379	1,258	91	1,379	1,258	91
Salem, Va	1,900	1,847	97	1,900	1,835	97	1,900	1,835	97
Salisbury, N.C	1,004	961	96	1,004	962	96	1,004	962	96
Sepulveda, Calif	956	898	94	956	915	96	956	915	96
Sheridan, Wyo	707	635	90	707	635	90	707	635	90
Togus, Maine	869	772	89	869	771	89	869	771	89
Tomah, Wis	1,176	1,079	92	1,176	1,089	93	1,176	1,089	93
Topeka, Kans	1,011	948	94	1,011	951	94	1,011	951	94
Tuscaloosa, Ala	964	922	96	964	921	96	964	921	96
Tuskegee, Ala	1,912	1,765	92	1,852	1,755	95	1,852	1,755	95
Waco, Tex	2,040	1,964	96	2,040	1,965	96	2,040	1,965	96
Total	57,601	54,386	94	57,590	54,297	94	57,445	54,196	94

Mr. OSTERTAG. Page 21–53 shows comparison of total costs and unit costs by activities.

Mr. THOMAS. Here is a good table on page 56, location and staffing and operating beds. I would look at page 54.

COSTS OF NP HOSPITALS

Mr. OSTERTAG. Let us look at the comparative analysis of units and total costs under personal services and benefits. There is an increase of $6,484,000. Under travel, no change; transportation of things, a decrease of $1,000; rent, communications, and utilities, an increase of $135,000; as compared with fiscal 1964.

Printing and reproduction, a $1,000 decrease. Supplies and materials increase of $233,000, to $38,407,000.

Mr. WISE. You will notice the big item is $2 million for maintenance and repair in NP hospitals, part of the overall $6 million increase.

Mr. OSTERTAG. Under other contractual services you have laundry and medical, nursing, dental fees, compensated therapy, and reproduction of furniture and equipment and other medical services. There is an increase of nearly $2 million in this general item.

Your $2 million increase, the substantial increase is maintenance and repair.

Mr. WISE. This is of the physical plant.

Mr. MONK. That is the piece of the $6 million we were talking about a little while ago that applies to the psychiatric hospitals.

Mr. OSTERTAG. That accounts for the substantial part of the general increase here. Are there any questions on that item?

PROCUREMENT FOR HOSPITALS

Mr. THOMAS. May I ask this: When you get into the question of medical supplies and provisions, fuels, even some of your operating supplies, office supplies, other medical supplies, even in the question of fuel for automobiles, what does it look like throughout the inpatient care and your clinics, too? I do not guess you break them down as to that.

In your procurement service, you might give us a little rundown on your procurement service. Is there any diminution in your own procurement service with reference to letting the GSA do some of your procurement? Do you still handle it all? Is it all done by competitive bid? We understand from each of your installations, as far as fresh milk, fresh vegetables, meats, all that is bought locally. This is where your big money is. How do you procure your staples and your office supplies and automobiles, fuel, and so forth? Give us a little rundown on that.

Mr. COOK. Perishable foods are procured almost exclusively by the individual hospitals themselves, by supply people at those hospitals.

Mr. THOMAS. How do they procure it; on the open market?

Mr. COOK. By competitive bidding, sir.

Mr. THOMAS. Say X hospital wants 100 gallons of fresh milk a day. Do they go out and contract for that with competitive bids?

Mr. COOK. Yes, sir; they usually make a contract for a period of 3 months for milk.

Mr. THOMAS. On competitive bids?

Mr. COOK. Yes, sir.

Mr. THOMAS. What do you pay for a gallon of milk? Is there any general price?

Mr. COOK. No, sir.

Mr. THOMAS. Does it vary from community to community?

Mr. COOK. Yes, sir; many States fix the price of milk. It varies from community to community. It also varies whether we are in an area where there is price support for milk or not.

FOOD COSTS

Mr. THOMAS. What is your ration cost today?

Mr. WISE. Raw food is about 97 cents, but the prepared ration, cost of preparation and all, makes it about $2.90 on the table.

Mr. THOMAS. That is pretty high eating.

Mr. WISE. Three meals a day. That is a bargain.

Mr. THOMAS. That is per person. No family spends that.

Mr. WISE. I try to discourage my wife from counting in the labor cost, but it still runs close to $2.90 a day per person in our family.

Mr. THOMAS. I hope you do not have five children.

Mr. WISE. Just two, sir.

Mr. GLEASON. Page 21–41 gives you that information, sir.

GSA PROCUREMENT FOR VA

Mr. THOMAS. What does GSA procure for you?

Mr. COOK. GSA procures almost all of our administrative supplies, sir, office supplies, equipment, fuel, both coal and oil we use for heating, and gasoline used for vehicular fuel. They procure the vehicles you mentioned earlier.

Mr. THOMAS. Your procurement setup is just the same this year as it was 5 or 6 or 10 years ago?

Mr. COOK. Essentially; yes, sir.

Mr. THOMAS. Has there been any change in it?

Mr. COOK. No, sir.

WAREHOUSES

Mr. THOMAS. How many warehouses do you have?

Mr. COOK. Three.

Mr. THOMAS. Where are they?

Mr. COOK. Wilmington, Calif., outside of Los Angeles; Hines, Ill., and Somerville, N.J.

STABILITY OF FOOD COSTS

Mr. THOMAS. What did you say the food cost was, $2.98 or $2.90?

Mr. WISE. $2.90.

Mr. THOMAS. What is the general outlook? What was it 3 or 4 or 5 years ago? Has there been an appreciable increase in the last 5 years?

Dr. MCNINCH. $2.78 in 1963.

Mr. GLEASON. $2.89 now.

Mr. WISE. Raw food cost has held quite stable, has varied over the last 10 years from 91 cents per ration up to about 97 cents now. The main increase in the past 10 years has been the labor cost since the dietetic work force, by and large, are under this wage board program.

DIETETIC PERSONNEL GRADE CHANGES

Mr. THOMAS. What was the result of your changes of those dietetic workers? You changed them under civil service rating all over the country. Did you reduce the compensation?

Mr. MONK. We did not reduce their pay; no, sir.

Mr. THOMAS. Everybody is satisfied now?

Mr. MONK. No, sir.

Mr. THOMAS. What is wrong, then?

Mr. MONK. They were reduced in grade, certain of them were reduced in grade; they held their pay.

Mr. THOMAS. All of them held their pay?

Mr. MONK. All of them held their pay; yes, sir. Nobody lost any pay as a result of the change.

Mr. THOMAS. Thank you.

General Hospitals

Mr. Boland. We shall go to general hospitals, page 21–57. This is a further breakdown of what we were talking about a moment ago with respect to inpatient care. We shall put in the record pages 21–57 and 21–58.

(The pages follow:)

GENERAL HOSPITALS

The estimate provides averages of 62,804 operating beds and 56,122 patient load in general hospitals in fiscal year 1965, or an increase of 23 operating beds and an increase of 150 patient load averages over the levels anticipated for fiscal year 1964. These increases relate mainly to the activation of the new general hospitals in Washington, D.C., and in Cleveland, Ohio, but also provide limited shifts in patient loads to alleviate overcrowding and/or meet changing patient demands in specific geographic areas.

The estimate contemplates 383 additional treatment staff in the general hospitals to (1) increase turnover rates, (2) convert TB beds at certain hospitals for treatment of 450 additional patients with medical and surgical conditions, (3) improve the quality of medical treatment and add new medical services at existing facilities, and (4) activate the new hospital facilities at Cleveland, Ohio, and Washington, D.C.

Inpatient Activities General Hospitals

Employment, workload, and object summary

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate	Increase (+) or decrease (−), 1965 over 1964
Number of hospitals	128	127	127	
Average employment	75,341	75,064	75,447	+383
Average payroll cost	$6,315	$6,680	$6,762	+ $82
Operating beds	62,703	62,781	62,804	+23
Occupancy rate (percent)	89.0	89.2	89.4	+.2
Average daily patient load	55,808	55,972	56,122	+150
Psychiatric	5,353	5,487	5,637	+150
Medical (including TB and neuropsychiatric)	34,114	34,003	33,907	−96
Surgical	16,341	16,482	16,578	+96
Patients treated	593,078	598,900	607,200	+8,300
Ratio of employees (including consultants) to operating beds	1.202	1.196	1.201	+.005
Ratio of employees (including consultants) to average daily patient load	1.350	1.341	1.344	+.003
Costs by object:				
11 Personnel compensation	$442,963,037	$466,836,000	$474,658,000	+$7,822,000
12 Personnel benefits	32,829,699	34,599,000	35,530,000	+931,000
21 Travel and transportation of persons:				
Employee	347,774	311,000	311,000	
All other	408,511	408,000	417,000	+9,000
22 Transportation of things	945,676	947,000	955,000	+8,000
23 Rent, communications, and utilities	11,780,320	12,425,000	13,281,000	+856,000
24 Printing and reproduction	661,912	626,000	624,000	−2,000
25 Other services	8,110,315	8,241,000	11,758,000	+3,517,000
(Medical and dental fees)	(741,163)	(745,000)	(743,000)	(−2,000)
26 Supplies and materials	69,544,965	70,249,000	71,376,000	+1,127,000
31 Equipment:	11,676,792	14,341,000	14,987,000	+646,000
Replacement equipment	(9,434,884)	(12,018,000)	(12,810,000)	(+792,000)
Initial equipment for new facilities	(148,656)	(1,048,000)	(1,200,000)	(+152,000)
Initial equipment for existing facilities	(2,093,252)	(1,275,000)	(977,000)	(−298,000)
32 Lands and structures	2,272,936	1,597,000	1,586,000	−11,000
Total gross costs	581,541,937	610,580,000	625,483,000	+14,903,000
Less quarters, subsistence, and laundry	5,470,071	5,488,000	5,773,000	−285,000
Net total costs	576,071,866	605,092,000	619,710,000	+14,618,000

Mr. BOLAND. The table on 21–61 indicates that part of the inpatient budget is attributable to general hospitals, and the big increases here, as they were in the neuropsychiatric hospitals, are in drugs and medicines, and drugs and dental supplies.

How many more patients do you have in the neuropsychiatric hospitals than in the general medical and surgical hospitals?

Mr. WISE. You mean in numbers?

Mr. BOLAND. In numbers.

Mr. WISE. We have about 54,000 patients in psychiatric and about——

Mr. GLEASON. 53,000.

Mr. THOMAS. 3,000 or 4,000 difference.

Mr. BOLAND. There is an indication that in general hospitals the cost of supplies runs more although you have less. Are there any questions on this? We have been over this.

BEDS AND PATIENT LOAD BY HOSPITAL

We shall put in page 21–63, which is a table indicating the locations of all general hospitals.

(The page follows:)

Distribution of patient load and beds by hospital

Station	Actual, fiscal year 1963 average			Estimated, fiscal year 1964 average			Estimated, fiscal year 1965 average		
	Operating beds	ADPL	Percent utilized	Operating beds	ADPL	Percent utilized	Operating beds	ADPL	Percent utilized
Albany, N.Y.	1,005	911	91	1,005	900	90	1,005	900	90
Albuquerque, N. Mex.	500	468	94	500	475	95	500	475	95
Alexandria, La.	498	429	86	488	436	89	488	436	89
Altoona, Pa.	200	187	94	200	182	91	200	182	91
Amarillo, Tex.	156	135	87	156	138	88	156	138	88
An Arbor, Mich.	486	432	89	486	415	85	486	413	85
Atlanta, Ga.	300	274	91	300	275	92	300	275	92
Augusta, Ga.	421	376	89	421	380	90	421	380	90
Baltimore, Md.	259	252	97	291	265	91	291	265	91
Batavia, N.Y.	240	215	90	240	220	92	240	220	92
Bath, N.Y.	273	231	85	263	225	86	263	225	86
Bay Pines, Fla.	680	636	94	680	635	93	680	635	93
Beckley, W. Va.	196	171	87	196	172	88	196	172	88
Big Spring, Tex.	250	223	89	250	217	87	250	217	87
Biloxi, Miss.	209	197	94	209	189	90	209	189	90
Birmingham, Ala.	479	422	88	479	436	91	479	435	91
Boise, Idaho	203	167	82	203	175	86	203	175	86
Bonham, Tex.	56	50	89	56	48	86	56	48	86
Boston, Mass.	920	789	86	920	805	88	920	805	88
Brecksville, Ohio	270	169	63	278	120	43	278	120	43
Bronx, N.Y.	1,350	1,193	88	1,331	1,185	89	1,331	1,185	89
Brooklyn, N.Y.	1,000	892	89	1,000	909	91	1,000	909	91
Buffalo, N.Y.	951	867	91	951	850	89	951	850	89
Butler, Pa.	450	388	86	450	410	91	450	410	91
Castle Point, N.Y.	258	229	89	248	225	91	248	225	91
Cheyenne, Wyo.	133	105	79	133	106	80	133	106	80
Chicago, Ill. (West Side)	505	471	93	505	465	92	505	465	92
Chicago, Ill. (research)	516	449	87	516	450	87	516	450	87
Cincinnati, Ohio	457	398	87	463	415	90	463	415	90
Clarksburg, W. Va.	200	179	90	200	180	90	200	180	90
Cleveland, Ohio	795	675	85	804	692	86	804	732	91
Columbia, S.C.	600	551	92	600	554	92	600	554	92
Coral Gables, Fla.	450	463	103	484	461	95	484	461	95
Dallas, Tex.	778	720	93	778	735	94	778	735	94

Distribution of patient load and beds by hospital—Continued

Station	Actual, fiscal year 1963 average			Estimated, fiscal year 1964 average			Estimated, fiscal year 1965 average		
	Operating beds	ADPL	Percent utilized	Operating beds	ADPL	Percent utilized	Operating beds	ADPL	Percent utilized
Dayton, Ohio	779	689	88	779	700	90	779	700	90
Dearborn, Mich	890	787	88	890	775	87	890	775	87
Denver, Colo	528	454	86	528	455	86	528	455	86
Des Moines, Iowa	386	313	81	366	310	85	366	310	85
Dublin, Ga	500	482	96	500	486	97	500	486	97
Durham, N.C	489	453	93	489	450	92	489	450	92
Dwight, Ill	215	189	88	215	190	88	215	190	88
East Orange, N.J	950	901	95	950	900	95	950	900	95
Erie, Pa	204	172	84	204	175	86	204	175	86
Excelsior Springs, Mo	100	85	85						
Fargo, N. Dak	228	190	83	228	197	86	228	197	86
Fayetteville, Ark	254	219	86	254	222	87	254	222	87
Fayetteville, N.C	390	340	87	390	340	87	390	340	87
Fort Bayard, N. Mex	215	178	83	205	175	85	205	175	85
Fort Harrison, Mont	165	137	83	160	145	91	160	145	91
Fort Howard, Md	377	317	84	367	325	89	367	325	89
Fort Thomas, Ky	254	263	104	254	244	96	254	244	96
Fort Wayne, Ind	200	172	86	200	177	89	200	177	89
Fresno, Calif	250	227	91	250	225	90	250	225	90
Grand Island, Nebr	201	165	82	191	160	84	191	160	84
Grand Junction, Colo	152	97	64	142	108	76	142	108	76
Hines, Ill	2,056	1,879	91	2,055	1,940	94	2,055	1,940	94
Hot Springs, S. Dak	242	188	78	241	190	79	241	190	79
Houston, Tex	1,149	1,103	96	1,188	1,157	97	1,188	1,157	97
Huntington, W. Va	180	159	88	180	161	89	180	161	89
Indianapolis, Ind	727	621	85	727	613	84	727	613	84
Iowa City, Iowa	480	421	88	480	415	86	480	415	86
Iron Mountain, Mich	269	232	86	269	230	86	269	230	86
Jackson, Miss	498	447	90	498	452	91	498	452	91
Kansas City, Mo	501	448	89	501	454	91	501	454	91
Kecoughtan, Va	570	529	93	570	550	96	570	550	96

Mr. BOLAND. What is the total, 127?

Dr. MCNINCH. 127.

Mr. BOLAND. It was 128 in 1963 but Oakland was dropped out; is that right?

Mr. WISE. Excelsior Springs.

Mr. GLEASON. We closed Excelsior Springs completely.

CONTRACT HOSPITALIZATION

Mr. OSTERTAG. We will take up "Contract hospitalization." For fiscal 1965 you estimate $16,679,000, a decrease of $82,000. The average daily patient load decreased by 89. I think we might place in the record pages 21–65 through 21–68.

(The pages follow:)

CONTRACT HOSPITALIZATION

Cost summary by object

Costs	Fiscal year 1963 actual	Fiscal year 1964 estimated	Fiscal year 1965 estimated	Increase (+) or decrease (−) 1965 over 1964
25 Other contractual services	$16,084,442	$16,761,000	$16,679,000	−$82,000
Average daily patient load:				
Federal (total)	1,480	1,512	1,423	−89
Non-Federal (total)	1,342	1,332	1,333	+1
Civil	(948)	(947)	(947)	
Municipal and State	(394)	(385)	(386)	+(1)
Total contract hospitalization	2,822	2,844	2,756	−88

PROGRAM NOTES

Hospitalization of VA beneficiaries in other Federal hospitals is provided for either service-connected or non-service-connected conditions to insure coverage in areas where there is a critical shortage of VA facilities.

Hospitalization of VA beneficiaries in non-Federal hospitals in the United States (including Alaska and Hawaii) is restricted to male veterans requiring hospitalization for service-connected conditions, female veterans in need of hospitalization for treatment of either service-connected or non-service-connected conditions, and those veterans requiring hospitalization to prevent interruption of training authorized under provisions of 38 U.S.C. 1506. Non-Federal hospitals may be utilized for the care and treatment of the aforementioned persons when suitable facilities are not feasibly available in VA hospitals, e.g.:

(*a*) When beds in VA hospitals are insufficient to meet the demand for hospitalization of certain types of patients—i.e., primarily those suffering from mental disorders—or where Federal hospital facilities are extremely limited or nonexistent.

(*b*) To provide hospitalization in medically emergent cases when immediate transfer to a VA hospital would be hazardous.

(*c*) To provide hosiptalization for female beneficiaries for whom appropriate facilities are not available in Federal hospitals.

Per diem reimbursement rates for care rendered by other Federal hospitals are established and/or approved annually by the Bureau of the Budget. The cost of hospitalization in non-Federal hospitals is based generally on per diem rates established under contracts between the VA and the various hospitals concerned plus charges for additional services such as special duty nursing care, surgical fees, consultants, special medical services, etc. This latter arrangement is exemplified by the $65 per diem rate for the 14 medical and surgical average patient load in municipal and State hospitals where the higher cost is incurred for special medical services which cannot be provided by VA hospitals in the immediate area.

The agency's objective over the years has been to reduce the contract hospitalization bed utilization to the extent practical. The Federal contract hospital patient load will decline in fiscal year 1965, in view of additional VA beds becoming available as a result of the VA hospital replacement and modernization program.

Patient load and cost estimates for Federal hospitals are based on actual utilization rather than bed allocation agreements with the agencies concerned. The VA, however, will provide reimbursable support for patient loads up to the full number of beds allocated, where demand exists.

Of the total contract hospitalization load of 2,844 and 2,756 estimated for fiscal years 1964 and 1965, respectively, it is estimated that approximately 63 percent will be hospitalized in the 50 States and 37 percent in Manila and Puerto Rico.

The Veterans Memorial Hospital at Manila has a planned ADPL and per diem cost of 230 and $5.05, respectively, for both fiscal years 1964 and 1965. The San Juan hospital has a planned ADPL of 810 for fiscal year 1964 and 800 for fiscal year 1965. The planned per diem cost is $13.42 for each fiscal year.

Cost changes

The net decrease of $82,000 for fiscal year 1965 is composed of (1) a decrease of $402,000 for the reduction of 88 average daily patient load; (2) a decrease of $46,000 for costs related to the 1 less calendar day; (3) an increase of $106,000 for increase in per diem rates at the U.S. Department of Health, Education, and Welfare St. Elizabeths Hospital (from $11.44 to $11.97) and the U.S. Public Health Service hospital at Fort Worth (from $14.25 to $15) and (4) an increase of $260,000 in per diem reciprocal rate (from $25 to $26) for VA beneficiaries hospitalized in other Federal general and tuberculosis hospitals.

Comparative Federal bed allocations and average daily patient load

	Fiscal year 1963		Fiscal year 1964		Fiscal year 1965	
	Actual average daily patient load	Bed allocation	Estimated average daily patient load	Bed allocation	Estimated average daily patient load	Bed allocation
U.S. Army:						
Brooke, Fort Sam Houston, Tex.	114	125	125	125	120	120
Fort Wainwright, Alaska	5	5	5	5	5	5
Tripler, Honolulu, Hawaii	67	90	85	85	75	75
Walter Reed, Washington, D.C.	4	10	5	5	5	5
William Beaumont, El Paso, Tex.	18	20	20	20	20	20
Total	208	250	240	240	225	225
U.S. Air Force:						
Elmendorf Air Force Base, Alaska	17	20	20	20	20	20
Minot, N. Dak.	27	50	45	45	32	35
Orlando, Fla.	7	10	10	10	8	8
Total	51	80	75	75	60	63
U.S. Navy:						
Beaufort, S.C.	6	5	6	6	5	5
Bethesda, Md.	11	20	8	8	10	10
Charleston, S.C.	20	25	20	20	20	20
Corpus Christi, Tex.	24	35	30	30	28	30
Guam	1	5	2	3	1	1
Jacksonville, Fla.	26	25	20	20	25	25
Key West, Fla.	3	5	5	5	5	5
Pensacola, Fla.	12	20	15	15	15	15
Philadelphia, Pa.	147	150	150	150	160	160
San Diego, Calif.	112	110	110	110	125	125
Total	362	400	366	367	394	396
U.S. Public Health Service:						
Alaska	10	8	10	10	10	10
Savannah, Ga.	18	20	20	20	20	20
Fort Worth, Tex.	235	235	215	215	175	175
Total	263	263	245	245	205	205
Department of Health, Education, and Welfare: St. Elizabeths, Washington, D.C.	348	350	350	350	300	300
Panama Canal Zone	6	10	6	8	7	7
Manila, Philippine Islands (Veterans memorial)	242	242	230	230	230	230
Emergencies					2	
Grand total	1,480	1,595	1,512	1,515	1,423	1,426

Contract Hospitalization Activities

Comparative costs, average daily patient load, and patient-day costs by activity

	Fiscal year 1963 actual			Fiscal year 1964 estimated			Fiscal year 1965 estimated		
	Total cost	Average daily patient load	Cost per patient-day	Total cost	Average daily patient load	Cost per patient-day	Total cost	Average daily patient load	Cost per patient-day
Non-Federal hospitals:									
Civil:									
Neuropsychiatric	$2,288,531	501	$12.51	$2,262,000	488	$12.66	$2,255,000	488	$12.66
General	3,293,010	447	20.18	3,350,000	459	19.94	3,341,000	459	19.94
Total, civil	5,581,541	948	16.13	5,612,000	947	16.19	5,596,000	947	16.19
Municipal and State:									
Neuropsychiatric	1,257,135	380	9.06	1,229,000	371	9.05	1,230,000	372	9.06
General	332,846	14	65.14	334,000	14	65.18	332,000	14	64.97
Total, municipal and State	1,589,981	394	11.06	1,563,000	385	11.09	1,562,000	386	11.09
Total non-Federal hospitals	7,171,522	1,342	14.64	7,175,000	1,332	14.72	7,158,000	1,333	14.71
Federal hospitals:									
U.S. Army	1,913,942	208	25.21	2,196,000	240	25.00	2,135,000	225	26.00
U.S. Air Force	481,129	51	25.85	686,000	75	25.00	570,000	60	26.00
U.S. Navy	3,320,458	362	25.13	3,349,000	366	25.00	3,758,000	396	26.00
U.S. Public Health Service (Marine)	260,791	28	25.52	275,000	30	25.00	285,000	30	26.00
U.S. Public Health Service (Fort Worth)	1,115,075	235	13.00	1,121,000	215	14.25	958,000	175	15.00
U.S. Department of Health, Education, and Welfare (St. Elizabeths)	1,323,569	348	10.42	1,465,000	350	11.44	1,311,000	300	11.97
Panama Canal Zone	68,931	6	31.48	69,000	6	31.42	80,000	7	31.42
Manila, Philippine Islands (Veterans' Memorial)	428,376	242	4.85	425,000	230	5.05	424,000	230	5.05
Other Federal hospitals	649								
Total Federal hospitals	8,912,920	1,480	16.50	9,586,000	1,512	17.32	9,521,000	1,423	18.33
Total contract hospitalization	16,084,442	2,822	15.62	16,761,000	2,844	16.10	16,679,000	2,756	16.58

Mr. OSTERTAG. The program notes indicate that hospitalization of VA beneficiaries in other Federal hospitals is provided for either service-connected or non-service-connected conditions to insure coverage in areas where there is a critical shortage of VA facilities.

There is a decrease, of course, in your overall estimate of this service. The decrease is $402,000 for the reduction of 88 average daily patient load and a decrease of $46,000 for costs related to one less calendar day and an increase of $106,000 for increase in per diem rates to the Department of Health, Education, and Welfare, St. Elizabeths Hospital, U.S. Public Health Service Hospital at Fort Worth, and an increase of $260,000 in the per diem reciprocal rate for VA beneficiaries hospitalized in other Federal hospitals.

What is the general nature of this program? This has to do with your contracts for outside hospitalization; does it not?

Mr. WISE. Yes, sir, it does.

LOCATION OF CONTRACT HOSPITAL PATIENTS

I think that the most significant thing about this program is the number of beneficiaries hospitalized outside of the United States. Of the total, 2,756 planned for next year, 800 of those are in San Juan, P.R. You know, we also have a 200-bed hospital there at the moment, but there are 800 additional veterans hospitalized in contract hospitals.

Then, as we discussed the other day, there are 230 patients in the Veterans' Memorial Hospital at Manila that are hospitalized under this program. That accounts for over a thousand of this total, Mr. Ostertag, who are located in either Puerto Rico or the Philippine Islands.

Mr. OSTERTAG. Your estimated program shows a decrease of 88 from last year.

Mr. WISE. Yes, sir. Those are principally in the continental United States in areas where VA beds are becoming available. The best example of that is the Washington, D.C., replacement hospital where, when that is opened, a number of patients will be transferred from St. Elizabeths into the VA hospital.

PER DIEM COSTS FOR CONTRACT HOSPITALIZATION

Mr. OSTERTAG. These contracts, are they for a definite period of time in which the rate is established?

Mr. WISE. The rate is for 1 year. We find that in practically all levels, whether Federal Government, civil, State, municipal, that the rates do change slightly from year to year. The table on page 21–68 shows the per diem rates in effect by category of patient and type of hospital.

Mr. OSTERTAG. Are these rates firm for fiscal 1965 sufficiently to the degree that this figure can be relied upon?

Mr. WISE. Yes, sir; they are agreed-on contract rates. In the case of Federal hospitals, these rates are prescribed by the Bureau of the Budget.

TYPE OF PATIENT IN CONTRACT HOSPITAL

Mr. THOMAS. What is the nature of the illness being treated in these hospitals? Are these G.M. & S. or NP or what?

Mr. OSTEGTAG. Could be anything.

Mr. THOMAS. What are the majority?

Mr. WISE. It is shown on this table on 21–68. For example, in the civil hospitals in the current year we expect to maintain an average of 488 neuropsychiatric patients, 459 general. In the municipal or State hospitals, 371 psychiatric and 14 in general hospitals.

In the other Federal hospitals, these are essentially all general medical patients with the exception of those at St. Elizabeths Hospital which number 350.

Mr. THOMAS. What about at Manila and the other one where you are building the hospital?

Mr. WISE. San Juan. Those are predominantly medical and surgical.

Mr. THOMAS. Not mental?

Mr. WISE. Not San Juan.

Mr. THOMAS. 1,200 patients, total, are mental, are they not?

Mr. WISE. Yes, sir.

PER DIEM RATES

Mr. OSTERTAG. Under "Cost change" there is quite a variation in the rates. What is the nature of this per diem reciprocal rate provision which is increased from $25 to $26 for VA beneficiaries hospitalized in other than Federal and general and tuberculosis hospitals?

Mr. WISE. Those are other Federal hospitals. This is the rate the Bureau of the Budget establishes where any agency that hospitalizes a medical or surgical patient pays the other agency $26 a day. In the case of the psychiatric patients, where the per diem is usually lower; for example, at St. Elizabeths the Bureau of the Budget also prescribes that rate, which is $11.97.

Mr. OSTERTAG. In other words, this is a reciprocal arrangement within the Federal Government?

Mr. WISE. Yes, sir.

Mr. OSTERTAG. That indicates that you are hospitalizing certain of their patients, does it not?

Mr. WISE. Yes, sir.

Mr. GLEASON. It might happen.

Mr. OSTERTAG. Your rate must be comparable to theirs in this instance despite what your costs might be.

Mr. WISE. That is correct. This does simplify bookkeeping on exchanges within the Government.

Mr. THOMAS. How does your rate compare for NP cases compared with St. Elizabeths?

Mr. WISE. Our rate runs about $14.

Mr. THOMAS. Against $11?

Mr. WISE. Yes, sir.

Mr. THOMAS. How does your rate compare with the States that you pay?

Mr. WISE. The average State hospital runs about $9. I would also like to cite, sir, the difference in turnover rate. In the Veterans' Administration neuropsychiatric hospitals the turnover rate is 8.1 percent. In the other Federal it is 5.8 percent, and in the State and local government hospitals it is 4.3 percent. We are doing practically 2 to 1 in the area of treatment and discharge.

Mr. THOMAS. As Mr. Boland brought out, they come back to you after 60 or 90 days.

Mr. GLEASON. They do not all come back.

Mr. THOMAS. I did not say they all came back, but you get a majority of them.

Mr. GLEASON. I do not think so.

Mr. THOMAS. That is no fault of yours. We went into that in some degree this morning on your basic research.

Dr. MCNINCH. It is difficult to get useful statistics on the final result of neuropsychiatric hospitalization. One has to wait for 5 years. You are estimating what your success was 5 years ago.

Mr. THOMAS. We realize that.

DOMICILIARY CARE

Mr. OSTERTAG. We will take up domiciliary care. Here is an indication that the estimate provides for an average of 16,679 operating beds and 15,448 member load in VA domiciliaries during fiscal year 1965, which results in an increase of 10 operating beds and a decrease of 3 member load.

What do you mean by three member load?

Mr. GLEASON. Instead of calling them patients, we call them members.

Mr. OSTERTAG. Your monthly average is 393 as compared with 398.

Mr. GLEASON. That is the waiting list.

Mr. OSTERTAG. Where is the comparative table of your operating beds and member loads?

Dr. MCNINCH. At 21–70.

Mr. OSTERTAG. It is not broken down by institutions.

Mr. WISE. 21–75 shows the distribution by individual stations.

Mr. OSTERTAG. You are maintaining the same average approximately in 1965 that you maintained in 1964. We shall insert 21–69, 21–70, and 21–75 in the record.

(The pages follow:)

DOMICILIARY CARE

The estimate provides for averages of 16,679 operating beds and 15,448 member load in VA domiciliaries during fiscal year 1965, which results in an increase of 10 operating beds and a decrease of 3 member load. These adjustments are due to the establishment of the 200-bed restoration center at East Orange, N.J., shifts of member load to alleviate overcrowding in other VA domiciliaries, and decreased demand in certain localities.

Pilot projects are in process to study the operation of restoration centers as part of the VA domiciliary program. Special restorative training will be afforded certain former hospital patients that have received maximum hospitalization benefits to fit them for more purposeful and independent living. The restoration center program will emphasize restoration and outplacement of disabled veterans, and serve to make more hospital beds available for those in need of hospitalization.

WAITING LIST

A slight decrease in domiciliary waiting lists was experienced in fiscal year 1963. The number of eligible applicants not scheduled for admission at the end of each month for both the 1962 and 1963 fiscal years is shown below:

Month	Fiscal year 1962	Fiscal year 1963	Month	Fiscal year 1963	Fiscal year 1963
July	239	143	February	578	471
August	241	239	March	489	454
September	276	501	April	267	305
October	335	506	May	186	169
November	569	528	June	100	247
December	699	561			
January	794	594	Monthly average	398	393

Employment, workload, and object summary

	Fiscal year 1963 actual	Fiscal year 1964 estimated	Fiscal year 1965 estimated	Increase (+) or decrease (−), 1965 over 1964
Number of domiciliaries	19	20	20	
Average employment	3,520	3,290	3,346	+56
Average payroll cost	$5,793	$6,362	$6,415	+$53
Operating beds	16,770	16,669	16,679	+10
Occupancy rate (percent)	93.6	92.7	93.1	+.4
Average daily member load	15,690	15,451	15,448	−3
Domiciliary members	15,589	15,295	15,166	−129
Restorees	101	156	282	+126
Ratio of employees to operating beds	.210	.197	.201	+.004
Ratio of employees to average daily member load	.224	.213	.217	+.004
Costs by object:				
11 Personnel compensation	$18,977,322	$19,480,000	$19,962,000	+$482,000
12 Personnel benefits	1,412,734	1,450,000	1,503,000	+53,000
21 Travel and transportation of persons:				
Employee	9,775	11,000	11,000	
All other	19,957	19,000	19,000	
22 Transportation of things	51,229	50,000	50,000	
23 Rent, communications, and utilities	757,175	790,000	817,000	+27,000
24 Printing and reproduction	19,316	19,000	19,000	
25 Other services	1,394,512	2,050,000	2,458,000	+408,000
(Medical and dental fees)	(16,630)	(19,000)	(19,000)	
26 Supplies and materials	7,350,127	7,373,000	7,422,000	+49,000
31 Equipment	550,349	952,000	589,000	−363,000
Replacement equipment	(473,985)	(586,000)	(508,000)	−(78,000)
Initial equipment for new facilities	(3,543)	(240,000)		−(240,000)
Initial equipment for existing facilities	(72,821)	(126,000)	(81,000)	−(45,000)
32 Lands and structures	158,932	140,000	135,000	−5,000
Total gross costs	30,701,428	32,334,000	32,985,000	+651,000
Less quarters, subsistence, and laundry	226,417	232,000	243,000	−11,000
Net total costs	30,475,011	32,102,000	32,742,000	+640,000

Distribution of member loads and beds by domiciliary

Station	Actual fiscal year 1963 average			Estimated fiscal year 1964 average			Estimated fiscal year 1965 average		
	Operating beds	Average daily member load	Percent utilized	Operating beds	Average daily member load	Percent utilized	Operating beds	Average daily member load	Percent utilized
Bath, N.Y.	1,034	944	91	875	750	86	760	740	97
Bay Pines, Fla.	400	380	95	400	373	93	400	370	93
Biloxi, Miss.	818	758	93	818	754	92	818	720	88
Bonham, Tex.	327	321	98	327	326	100	327	323	99
Clinton, Iowa	555	564	102	565	564	100	565	560	99
Dayton, Ohio	1,600	1,536	96	1,600	1,544	97	1,600	1,540	96
Dublin, Ga.	483	460	95	483	463	96	483	460	95
East Orange, N.J.				75	54	72	200	180	90
Hines, Ill.	120	101	84	120	102	85	120	102	85
Hot Springs, S. Dak.	548	488	89	548	478	87	548	475	87
Kecoughtan, Va.	1,203	1,115	93	1,203	1,144	95	1,203	1,113	93
Los Angeles, Calif.	2,607	2,528	97	2,570	2,424	94	2,570	2,420	94
Martinsburg, W. Va.	500	473	95	500	483	97	500	485	97
Mountain Home, Tenn.	1,771	1,588	90	1,781	1,564	88	1,781	1,600	90
Temple, Tex.	392	380	97	392	383	98	392	380	97
Thomasville, Ga.	800	755	94	800	754	94	800	750	94
Wadsworth, Kans.	1,000	935	94	1,000	934	93	1,000	930	93
Whipple, Ariz.	159	159	100	159	159	100	159	157	99
White City, Oreg.	1,025	941	92	1,025	944	92	1,025	940	92
Wood, Wis.	1,428	1,264	89	1,428	1,254	88	1,428	1,203	84
Total	16,770	15,690	94	16,669	15,451	93	16,679	15,548	93

RESTORATION CENTER PROGRAM

Mr. OSTERTAG. In connection with the domiciliary care, we have the restoration center program. Is that provided for in this particular part of your budget?

Mr. WISE. Yes, sir. The highlight for fiscal year 1965 would be the activation of the 200-bed restoration center at East Orange, N.J. At this facility we expect to maintain an average member load of 126 in 1965.

In other geographical areas there are small changes in demand, slightly downward, where we would expect 129 lesser member load than in the present year but, as is indicated, the program remains practically level.

Mr. THOMAS. What is the difference between a domiciliary facility and a restoration center?

Dr. ENGLE. The restoration center program was started about a year and a half ago. The objective is to inject something dynamic in the domiciliary program. We have been operating a pilot installation at Hines, Ill. There are 120 beds at that installation.

Mr. THOMAS. I remember when you set it up. But 90 percent of your people in there are over 60 years of age. What do you intend to restore?

Dr. ENGLE. The emphasis in the past has been on domiciliation care, food, and lodging and a sheltered environment, and it is our belief that a large number of domiciliary members can be motivated to return to society.

Mr. THOMAS. What have you accomplished in the last 2 years?

Dr. MCNINCH. At Chicago about 23 percent of those admitted have been placed in occupations.

Mr. THOMAS. What are the age groups?

Dr. MCNINCH. The average age group in Chicago has been 45.

Mr. OSTERTAG. What is your load there?

Mr. MCNINCH. 110, something like that. It has been a pilot project.

Mr. THOMAS. How many will there be?

Mr. WISE. There will be two with East Orange.

Mr. OSTERTAG. East Orange is not operating as yet?

Mr. GLEASON. Not yet.

Mr. THOMAS. Has the program proved successful?

Mr. GLEASON. We think a 23-percent return to community life is a pretty good percentage. If we could do that well with our domiciliary members there could well be a great saving.

Mr. THOMAS. We have been to a good many of the domiciliary facilities and I do not recall seeing anyone as young as 40 or 45.

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. It would be interesting to learn where these veterans who are placed in the restoration centers are channeled from. Are they channeled to the restoration centers from hospitals or from domiciliary facilities?

Dr. ENGLE. It could be from both. In the pilot study it has been mainly from the hospital at Hines. But there will be a potential from both the hospitals and domiciliary facilities. This would be another means of freeing hospital beds.

Mr. OSTERTAG. In what way are you trying to restore these veterans, physically, mentally, or occupationally?

Dr. MCNINCH. Both, but it is primarily a mental and social problem. At Hines I think 43 percent are alcoholics.

Mr. THOMAS. They are out of your mental institutions, are they not? You do not have any out of your domiciliary facilities, do you?

Dr. MCNINCH. We have a rehabilitation program at Los Angeles that is not called a restoration center but it is a similar type program and we have had about the same amount of success under a very energetic director.

Mr. OSTERTAG. But you started out, as I recall—and I recall that we discussed this matter a year ago—to substitute or take from your domiciliary capacity for what was being established as restoration capacity. Am I right in that, Mr. Administrator?

Mr. GLEASON. We are taking the beds from domiciliary and, as you can see from the bottom of page 21–75, the beds are still all included in the overall total but we are using domiciliary beds for the restoration program, that is correct.

Mr. OSTERTAG. When I spoke of capacity I meant beds or members.

Mr. GLEASON. So many of these people in the domiciliary program have lost all desire to live in the community. This is more a place for them to go and wait until they die. That is why we are trying to initiate a program to have them return to the community and obtain jobs and work and live among their fellow men in a more normal life.

Mr. BOLAND. That sounds good but once they get in these places they like to stay, and there is a reason for it. There is no other place for them to go.

Mr. GLEASON. If we could do as well in the coming year with a 23-percent return to community life, this will be quite successful because this, in turn, will free hospital beds for us to take care of additional patients.

Mr. OSTERTAG. The whole question arose as to whether or not you were doing this at the expense of the domiciliary capacity or capability or beds and whether or not, despite the fact you call it a pilot operation, it was your plan to eventually resort all veterans with the idea of abolishing domiciliary care.

Mr. GLEASON. No, sir. I do not think we will ever be able to abolish domiciliary facilities in total, and we do not even know we can abolish them 23 percent.

DOMICILIARY WAITING LIST

Mr. OSTERTAG. What is the waiting list for domiciliary care today?

Mr. GLEASON. About 393.

Mr. OSTERTAG. That is the overall waiting list for the country?

Mr. GLEASON. That is the monthly average.

Mr. OSTERTAG. The monthly average?

Mr. GLEASON. Yes.

Mr. BOLAND. Does that mean 393 people have made applications for domiciliary care who have not been satisfied?

Mr. GLEASON. That is correct.

Mr. BOLAND. That is surprisingly low when you stop to think of the numbers involved.

Mr. GLEASON. There are some places where they make applications, such as in Florida in the winter months, and there might not be vacancies, but you could go to the New England States and get in tomorrow. And in the summertime you could walk into Florida pretty nearly any day.

Mr. WISE. It is very seasonal.

Mr. BOLAND. That is understandable. These people are human beings. They like vacations.

Mr. GLEASON. We have three domiciliaries in which there is no waiting list whatsoever.

STATUS OF FACILITIES FOR RESTORATION PROGRAM

Mr. OSTERTAG. I would like to raise one more question about this restoration program. Hines is in operation?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. And East Orange, N.J., is partially in operation?

Mr. GLEASON. We hope that will be in operation by the end of this fiscal year, in another 3 to 4 months.

Mr. OSTERTAG. I notice on the table of distribution of member loads and beds by domiciliary that East Orange had in 1964, 75 operating beds, and in 1965 you anticipate 200 operating beds?

Mr. GLEASON. That is an annual average, Mr. Ostertag. We had anticipated that East Orange would be completed about 3 months ago in the construction but because of labor disputes and so on it has been delayed.

Mr. THOMAS. What construction are you doing at Hines and East Orange?

Mr. GLEASON. At Hines we did not have to do any. The buildings were there.

Mr. THOMAS. You had buildings at East Orange?

Mr. GLEASON. No, sir. This is prefabricated construction.

Mr. THOMAS. Did you not have domiciliaries at East Orange?

Mr. GLEASON. No, sir.

Mr. THOMAS. How many do you have now?

Mr. GLEASON. Twenty if you count Hines and East Orange.

Mr. THOMAS. What are the facilities you do not have in regular domiciliaries that you have in restoration centers? You want more psychiatrists and more trained personnel and that is about all there is to it, is it not?

Mr. GLEASON. Dr. Engle might be able to enlarge on this.

Dr. ENGLE. The essential problem is staffing with social workers, occupational therapists, psychologists, and so forth.

TREATMENT FOR ALCOHOLISM

Mr. THOMAS. Mr. Boland, will you go into the question of alcoholism. I am getting a lot of questions about it. Most of these cases are nonservice connected. They want to get into hospitals, they are sick, and their families are calling. Most of them are not service connected but 60 percent of the patients in your hospitals are not service connected. What is the policy? What can you do about it? Is not alcoholism a disease just like some of the other diseases we are having? Let us go into it in some detail. Is this the only place that the veteran can go for alcoholism? Does he have to go to a private hospital? Certainly the hospitals at Fort Worth and at Lexington, Ky., do not deal in alcoholism, do they? They deal in other kinds of addiction.

Mr. GLEASON. Narcotics.

Mr. THOMAS. What is the policy? Personally I know it is a disease in my own mind. Sometimes I am a little impatient, and I guess the average doctor is, and I guess the position is by virtue of the fact they say, "You brought it on yourself." That is true to some extent but does not the medical world recognize it as a disease? What is being done? Are you doing any research in your hospitals? Give us a 5- or 10-minute discussion of it.

Dr. TIMM. Of course alcoholism is a disease. In many instances it is symptomatic of another underlying disease, particularly in the psychiatric area. We do admit these for treatment when they are considered to be treatable cases.

Mr. THOMAS. What is the yardstick? What is the scientific yardstick of whether it is a treatable case? A drunk is a drunk, is he not?

Dr. TIMM. I suppose you could say a drunk is a drunk; yes, sir, but there are various degrees.

Mr. THOMAS. I have heard of some good people—and I say they are good people when they are sober—who say, "Help get me out of this mess. I want to take the cure and I want to get in the hospital. They won't take me in." They have enough sense that they know they are in trouble. That person could be restored. What are we doing about it?

Dr. TIMM. I think in these cases, we get them in hospitals where alcoholism is the primary trouble as long as they will cooperate.

VA POLICY ON TREATMENT FOR ALCOHOLISM

Mr. THOMAS. The hospital manager will say, "I saw you 2 weeks ago and now you are back again." The hospital manager is put out with him, but the man is still sick. What can be done about the problem and what is the answer to it? Is there any general policy? The hospital manager will say, "I told you the last time you were here I was not going to take you back. You are back again." Do you have any general policy on this type situation?

Dr. TIMM. Our general policy on this is to treat the veteran as long as he will accept the treatment and cooperate.

Mr. THOMAS. I do not know what you mean by that. I have had them call me and want me to help them get in the hospital and the hospital manager will say, "He was in here last week and I told him not to come back."

Dr. TIMM. This is the kind of problem that we are trying to find an answer for. We do not have a good answer to it.

RESEARCH ON ALCOHOLISM

Mr. THOMAS. What research has been done on alcoholism? It seems to me this is a necessary area for research. Is it a combination of neuroses? Is it a biological defect? Is it a molecular defect? What research have you done?

Dr. MUSSER. We have conducted research on alcoholism. We are associated with the Menninger Clinic at Topeka, Kans., and we are working with them in the operation of a research ward for alcoholism.

Mr. THOMAS. What about a hospital where you have 1,000 beds? You do not have to send him out of town, do you?

Dr. MUSSER. The chief factor in the treatment of alcoholism is the motivation of the individual, whether he wants to get well.

Mr. THOMAS. Are any biological defects involved?

Dr. MUSSER. There is some difference of opinion. By and large most doctors and psychiatrists feel that fundamentally these are psychoneurotic people. Recently there has been some indication that after a certain time metabolic changes appear in the central nervous system of alcoholics which have some of the features of a deficiency disease, and some of the most encouraging research is along this line.

Mr. THOMAS. You mean it starts as a mental deficiency and ends as a physical deficiency?

Dr. MUSSER. Yes, in a sense. This is a clue we have never had before and I think it needs more research and study. For the first time in history of the Veterans' Administration we have a very active program of research on alcoholism.

POLICY ON ADMITTANCE OF ALCOHOLICS

Mr. THOMAS. Do you have general rules about taking a non-service-connected alcoholic in your hospitals?

Dr. ENGLE. Yes, sir; we have a general rule that says in effect that unless this man has a background disease that is definitely treatable like a psychosis he should not be admitted unless he had delirium tremens or was a medical emergency.

We are not saying this is the best policy but it is the present policy. Many alcoholics are turned down.

Mr. THOMAS. Can you do them any good? Are you not making a mistake?

Dr. MCNINCH. They are competing with other patients.

Mr. OSTERTAG. Is there any research along this line associated with your restoration center?

Dr. ENGLE. Yes, sir; 45 percent of the members admitted to the restoration center are alcoholics. In addition there is a project at Los Angeles for the restoration of alcoholics. It is called PAR—program for alcoholic rehabilitation.

Mr. THOMAS. Suppose he is competing with another veteran for a bed and they are both nonservice connected. If alcholism is a disease, you are giving his second choice, are you not? Did he bring it on himself? I guess he did in one sense of the word because nobody held him by the ear and made him drink, but if it is a disease, maybe he did not want it. Maybe he was helpless in combating it, just like a person cannot combat appendicities. Are you going to deny him hospitalization on the basis he is an alcoholic?

Dr. ENGLE. We are not sure it is right, Mr. Thomas. I think in many of these cases hospitalization not only does not do any good but it may be harmful.

Mr. THOMAS. What do you mean, it may be harmful?

Dr. ENGLE. In providing a sheltered environment or a haven, a place to go after you go on an alcoholic bout.

Mr. THOMAS. Are you saying he has to get right down on the ground and stay there for awhile and from that position he has to pull himself up and nobody can pull him up except himself? Is that what you are saying?

Dr. ENGLE. No, sir.

Mr. THOMAS. If that is right, medical science is not doing anything for him.

Dr. ENGLE. We are talking about hospital treatment. Of course outpatient treatment can often be helpful and Alcoholics Anonymous is helpful to a large number of these individuals.

Mr. THOMAS. I think Alcoholics Anonymous are about the only people who have done an outstanding job.

Well, it is a problem and I was hoping you were doing some research on it.

Mr. BOLAND. I think it would be a good field for you to go into because so many who come to VA institutions are alcoholics. Of course alcoholism should not be the only problem when they are admitted, there must be some psychosis.

FUTURE PLANS FOR RESTORATION CENTERS

Mr. OSTERTAG. You have no definite goals as to the total program on restoration as yet?

Mr. GLEASON. We are only going as far as East Orange and we will use it, along with Hines, Ill., to see if we should go further with this program.

Mr. OSTERTAG. What has been your experience thus far?

Mr. GLEASON. Has been very good.

Mr. OSTERTAG. It has been good but it has not revealed what your ultimate program or goal should be?

Mr. GLEASON. It has revealed a very fine goal but whether we can reach this goal in the eastern part of the United States, we do not know. If we do, we probably will put one out on the west coast.

UNIT COSTS—DOMICILIARIES

Mr. OSTERTAG. This table on page 21–72 should be put in the record at this time.

(The table follows:)

Comparison of total costs and unit cost by activity

	Fiscal year 1963, actual		Fiscal year 1964, estimated		Fiscal year 1965, estimated		Increase (+) or decrease (−), 1965 over 1964	
	Cost	Cost per member-day	Cost	Cost per member-day	Cost	Cost per member-day	Cost	Cost per member-day
Care of members:								
Dom. Med. svcs.	$2,595,165	$0.453	$2,707,000	$0.479	$2,819,000	$0.500	+$112,000	+$0.021
Ancil. med svcs.	1,409,529	.246	1,470,000	.260	1,572,000	.279	+102,000	+.019
Nursing svc.	999,969	.175	1,043,000	.184	1,090,000	.194	+47,000	+.010
Phys. med. and rehab. svc.	1,418,107	.248	1,479,000	.262	1,558,000	.276	+79,000	+.014
Dietetic svc.	9,800,473	1.711	10,222,000	1.807	10,379,000	1.841	+157,000	+.034
Chaplains	301,825	.052	315,000	.056	318,000	.056	+3,000	
Dental svc.	1,052,472	.184	1,098,000	.194	1,129,000	.200	+31,000	+.006
Spec. treat. svcs.	34,056	.006	35,000	.006	36,000	.006	+1,000	
Subtotal	17,611,596	3.075	18,369,000	3.248	18,901,000	3.352	+532,000	+.104
General administration:								
Office of director	347,065	.060	362,000	.064	366,000	.065	+4,000	+.001
Registrar	747,972	.130	780,000	.138	788,000	.140	+8,000	+.002
Comm. and records	239,262	.042	251,000	.044	253,000	.045	+2,000	+.001
Fiscal	432,756	.076	451,000	.080	456,000	.081	+5,000	+.001
Personnel	255,925	.045	267,000	.047	270,000	.048	+3,000	+.001
Supply	726,044	.127	757,000	.134	764,000	.135	+7,000	+.001
Dom. admin. office	1,034,883	.181	1,079,000	.191	1,091,000	.193	+12,000	+.002
Subtotal	3,783,907	.661	3,947,000	.698	3,988,000	.707	+41,000	+.009
Housekeeping division:								
Housekeeping oper.	742,722	.130	775,000	.137	762,000	.135	−13,000	−.002
Laundry and dry clean.	562,355	.098	586,000	.104	573,000	.102	−13,000	−.002
Subtotal	1,305,077	.228	1,361,000	.241	1,335,000	.237	−26,000	−.004

Operation of plant and facilities:								
Engr. supervision	417,405	.073	435,000	.077	437,000	.078	+2,000	+.001
Plant	1,091,398	.191	1,138,000	.201	1,144,000	.203	+6,000	+.002
Utility	592,058	.103	618,000	.109	645,000	.114	+27,000	+.005
Motor transportation	385,342	.067	402,000	.071	405,000	.072	+3,000	+.001
Other engr. oper	1,148,239	.201	1,198,000	.212	1,205,000	.213	+7,000	+.001
Subtotal	3,634,442	.635	3,791,000	.670	3,836,000	.680	+45,000	+.010
M. & R. of plant and facilities:								
Buildings	1,275,751	.223	1,331,000	.235	1,498,000	.266	+167,000	+.031
Bldg. svc. equip. and sys	862,958	.151	901,000	.159	1,016,000	.180	+115,000	+.021
Operating equipment	454,193	.079	474,000	.084	532,000	.094	+58,000	+.010
Utility systems	262,514	.046	274,000	.049	308,000	.055	+34,000	+.006
Other facilities	339,153	.059	354,000	.063	399,000	.071	+45,000	+.008
Subtotal	3,194,569	.558	3,334,000	.590	3,753,000	.666	+419,000	+.076
Asset acquisitions	736,385	.128	1,092,000	.193	724,000	.128	−368,000	−.065
Inpatient, total	30,265,976	5.285	31,894,000	5.640	32,537,000	5.770	+643,000	+.130
Other operating expenses:								
Oper. of pers. qtrs	53,591		54,000		55,000		+1,000	
Benef. travel, suppl. for indig., etc	246,708		250,000		253,000		+3,000	
Pros. apl. and sim. aids	135,153		136,000		140,000		+4,000	
Subtotal	435,452		440,000		448,000		+8,000	
Total gross costs	30,701,428		32,334,000		32,985,000		+651,000	
Less: Q.S. & L.	226,417		232,000		243,000		−11,000	
Net total costs	30,475,011		32,102,000		32,742,000		+640,000	

COST PER PATIENT-DAY FOR INPATIENT CARE

Mr. OSTERTAG. May I make this observation, that the cost per member-day for inpatient care is estimated at $5.77 for fiscal year 1965 as compared with $5.64 for 1964 and $5.285 for 1963.

We shall put in the record pages 21–73 and 21–74.

(The pages follow:)

Comparative analysis of unit and total costs, by object

Costs by object	Base factor	Fiscal year 1963 actual		Fiscal year 1964 estimated		Fiscal year 1965 estimated		Increase (+) or decrease (−), 1965 over 1964	
		FTE employees	Total cost	FTE employees	Total cost	FTE employees	Total cost	FTE employees	Total cost
10 Personal services and benefits:									
Consultants and attendings		9	$91,334	11	$116,000	11	$117,000		+$1,000
Nurses		79	643,672	81	719,000	85	789,000	+4	+70,000
Dentists		40	612,104	42	688,000	42	751,000		+63,000
Physicians		79	1,172,907	83	1,322,000	87	1,430,000	+4	+108,000
Clinical and counseling psychiatrist		20	235,865	28	359,000	30	402,000	+2	+43,000
Wage rate employees		1,870	9,188,435	1,870	9,650,000	1,870	9,464,000		−186,000
Purchase and hire		10	71,073	10	72,000	10	72,000		
Other personnel		1,413	8,374,666	1,165	8,004,000	1,211	8,440,000	+46	+436,000
Subtotal		3,520	20,390,056	3,290	20,930,000	3,346	21,465,000	+56	+535,000
21 Travel:		*Unit cost*		*Unit cost*		*Unit cost*		*Unit cost*	
Employees	Employees	2.777	9,775	3.343	11,000	3.288	11,000	−.055	
Other	Average daily member load	1.272	19,957	1.230	19,000	1.230	19,000		
Subtotal			29,732		30,000		30,000		
22 Transportation of things	Average daily member load	3.265	51,229	3.236	50,000	3.237	50,000	+.001	
23 Rent, communications and utility services:									
Communications	Operating beds	5.304	88,945	5.579	93,000	5.576	93,000	−.003	
Rent motion picture film	Average daily member load	6.009	94,279	6.407	99,000	6.409	99,000	+.002	
Utility services	Operating beds	33.625	563,894	35.155	586,000	36.573	610,000	+1.418	+24,000
Rental of medical and other equipment	Average daily member load	.641	10,057	.777	12,000	.971	15,000	+.194	+3,000
Subtotal			757,175		790,000		817,000		+27,000
24 Printing and reproduction	Average daily member load	1.231	19,316	1.230	19,000	1.230	19,000		

25	Other contracts and services:									
	Repair prosthetic appliances	do	.635	9,967	.674	10,000	.647	10,000		
	Laundry services	do	8.428	132,233	8.802	136,000	8.933	138,000	+.131	+2,000
	Medical nurse and dental fees	do	1.060	16,630	1.230	19,000	1.230	19,000		
	Compensated therapy	do	49.609	778,369	92.227	1,425,000	92.245	1,425,000	+.018	
	Repair furniture and equipment	Operating beds	4.683	78,538	4.799	80,000	4.796	80,000	−.003	
	Medical and rehabilitative contract services	do	18.103	303,583	18.297	305,000	42.389	707,000	+24.092	+402,000
	Other medical services	Average daily member load	4.792	75,192	4.854	75,000	5.114	79,000	+.260	+4,000
	Subtotal			1,394,512		2,050,000		2,458,000		+408,000
26	Supplies and materials:									
	Provisions	Average daily member load	280.484	4,400,799	283.800	4,385,000	283.143	4,374,000	−.657	−11,000
	Drugs and medicines	do	32.355	507,650	31.584	488,000	34.179	528,000	+2.595	+40,000
	Blood and blood products	do	.116	1,815	.129	2,000	.129	2,000		
	Medical and dental supplies	do	12.294	192,893	13.527	209,000	13.723	212,000	+.196	+3,000
	Fuels	Operating beds	32.632	547,232	33.835	564,000	34.175	570,000	+.340	+6,000
	Operating supplies	do	39.979	670,450	40.494	675,000	40.590	677,000	+.096	+2,000
	Medical and rehabilitation supplies	do	43.067	722,228	43.194	720,000	43.468	725,000	+.274	+5,000
	Prosthetic appliances	Average daily member load	7.119	111,696	7.443	115,000	7.509	116,000	+.066	+1,000
	Linens	do	8.268	129,729	9.061	140,000	9.257	143,000	+.196	+3,000
	Office supplies	Employees	8.507	29,946	10.638	35,000	10.460	35,000	−.178	
	Other medical supplies	Average daily member load	2.275	35,689	2.589	40,000	2.589	40,000		
	Subtotal			7,350,127		7,373,000		7,422,000		+49,000
31	Equipment:									
	Passenger vehicles	Replacement		10,344		11,000		6,000		−5,000
	Nonpassenger vehicles	do		17,337		29,000		21,000		−8,000
	Furniture and fixtures	Operating beds	19.319	323,979	20.697	345,000	17.207	287,000	−3.490	−58,000
	Medical, dental, and scientific equipment	do	6.158	103,271	26.816	447,000	11.511	192,000	−15.305	−255,000
	Utilities and other operating	do	5.690	95,418	7.199	120,000	4.976	83,000	−2.223	−37,000
	Subtotal			550,349		952,000		589,000		−363,000
32	Lands and structures	Operating beds	9.477	158,932	8.399	140,000	8.094	135,000	−.305	−5,000
	Total gross costs			30,701,428		32,334,000		32,985,000		+651,000

Fund analysis for provisions

	Fiscal year 1963 actual	Fiscal year 1964 estimated	Fiscal year 1965 estimated	Increase (+) or decrease (−), 1965 over 1964
Average daily member load	15,690	15,415	15,488	+37
Total member rations	4,871,926	4,811,000	4,797,000	−14,000
Unit cost	$.887	$.896	$.896	
Total cost	$4,322,154	$4,311,000	$4,298,000	−$13,000
Employee (salary deductions) rations	80,270	75,000	77,000	+2,000
Unit cost	$.887	$.896	$.896	
Total cost	$71,212	$67,000	$69,000	+$2,000
Other employee and guest rations	8,378	8,000	8,000	
Unit cost	$.887	$.896	$.896	
Total cost	$7,433	$7,000	$7,000	
Total rations	4,960,574	4,894,000	4,882,000	−12,000
Unit cost	$.887	$.896	$.896	
Total cost	$4,400,799	$4,385,000	$4,374,000	−$11,000

Mr. OSTERTAG. Any further questions on this?

(No response.)

STATE HOMES

Mr. BOLAND. On page 21–76 it is indicated there is a decrease of $20,000 requested in 1965 from 1964 for medical care in State homes. You had $7,481,000 in 1964 and you are requesting $7,461,000 for 1965. The average daily member load was 9,100 in 1964 and is expected to be the same in 1965.

Put in the record page 21–76 and the table on page 21–77 that shows the distribution of the average daily member load by State home.

(The pages follow:)

Cost summary by object

	Fiscal year 1963 actual	Fiscal year 1964 estimated	Fiscal year 1965 estimated	Increase (+) or decrease (−), 1965 over 1964
41 Grants, subsidies, and contributions	$7,378,261	$7,481,000	$7,461,000	−$20,000
Average daily member load	9,161	9,100	9,100	

Program notes

In accordance with 38 U.S.C. 610, domiliciary and hospitalization care are furnished to eligible beneficiaries in State soldier's homes under this legislation, the Federal Government reimburses States or territories for domiciliary or hospitalization care furnished members meeting the same criteria for admission as those required by the Veterans' Administration. Payment is effected at a rate not to exceed $2.50 per diem for each veteran, or one-half the cost of maintenance, whichever is less.

The average daily member load of 9,100 projected for fiscal years 1964 and 1965 reasonably approximates fiscal year 1963 experience. The downward trend of demand in this program during the past few years has been reversed in fiscal year 1963, and is expected to remain relatively stable for the next several years.

Comparative average daily member loads since fiscal year 1948 are as follows:

Actual average daily member load

Fiscal year:	
1948	6,150
1949	6,712
1950	7,437
1951	7,774
1952	7,900
1953	8,088
1954	8,346
1955	8,802
1956	8,739
Fiscal year—Continued	
1957	8,938
1958	9,318
1959	9,678
1960	9,418
1961	9,385
1962	9,062
1963	9,161
1964 (estimated)	9,100
1965 (estimated)	9,100

Member loads actually experienced in fiscal year 1963 are indicated in the table shown below:

Distribution of fiscal year 1963 average daily member load by State home

State home	
Napa County, Calif	1,813
Homelake, Colo	75
Rocky Holl, Conn	684
Millegeville, Ga	219
Boise, Idaho	89
Quincy, Ill	559
Lafayette, Ind	247
Marshalltown, Iowa	312
Fort Dodge, Kans	94
Chelsea, Mass	641
Holyoke, Mass	195
Grand Rapids, Mich	729
Minneapolis, Minn	395
St. James, Mo	73
Columbia Falls, Mont	58
Grand Island, Nebr	150
Tilton, N.H	34
Menlo Park, N.J	75
State home	
Vineland, N.J	113
Oxford, N.Y	8
Lisbon, N. Dak	89
Erie County, Ohio	676
Ardmore, Okla	172
Norman, Oka	197
Sulphur, Okla	175
Erie, Pa	180
Bristol, R.I	243
Hot Springs, S. Dak	135
Bennington, Vt	54
Orting, Wash	164
Retsil, Wash	212
King, Wis	289
Buffalo, Wyo	12
Total	9,161

Cost changes

Fiscal year 1965 costs reflect no change in the fiscal year 1964 unit cost level with the exception of the expense for 1 less calendar day in fiscal year 1965, which amounts to $20,000. Both the fiscal year 1964 and fiscal year 1965 dollar estimates have been adjusted to reflect authorized increases in the annual per capita costs. Advance notice that such increases in billings will occur has already been received from several States. Costs per member day are $2.21 for fiscal year 1963 and $2.25 for the fiscal years 1964 and 1965.

Mr. BOLAND. How many State homes are there?

Dr. MCNINCH. Thirty-three in twenty-eight States.

Mr. BOLAND. Incidentally, you give pretty good treatment in these State homes. I am familiar with the one in Chelsea and the one in Holyoke, Mass., and they are both fine homes.

OUTPATIENT ACTIVITIES

The chart on page 21–78 indicates an increase of $1,393,000, 1965 over 1964, for outpatient activities, for a total of $131,819,000 compared to $130,426,000 in 1964. The average employment indicates an increase of 65, 1965 over 1964, from 11,067 in 1964 to 11,132 in 1965. Put in the record the charts on pages 21–78 and 21–79.

(The charts referred to follow:)

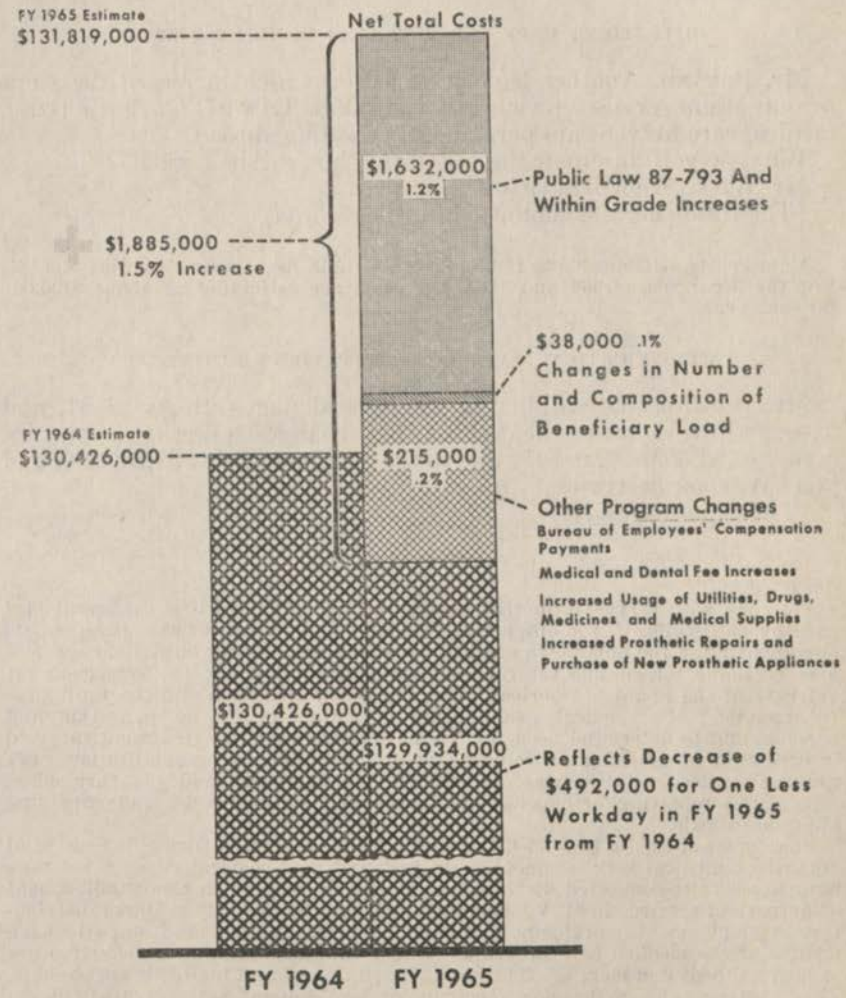
Employment, workload, and object summary

	Fiscal year 1963 actual	Fiscal year 1964 estimated	Fiscal year 1965 estimated	Increase (+) or decrease (−), 1965 over 1964
Average employment	10,853	11,067	11,132	+65
Average payroll cost	$7,382	$7,805	$7,924	+$119
Workloads:				
Medical:				
Number visits—Total	5,900,554	5,979,000	6,011,800	+32,800
Staff—All purposes	4,672,952	4,747,000	4,784,500	+37,500
Fee—All purposes	1,227,602	1,232,000	1,227,300	−4,700
Dental:				
Examination cases completed—Total	40,729	41,000	40,985	−15
Staff	36,780	37,000	37,000	
Fee	3,949	4,000	3,985	−15
Treatment cases completed—Total	48,903	49,600	49,572	−28
Staff	41,858	42,500	42,500	
Fee	7,045	7,100	7,072	−28
Costs by object:				
11 Personnel compensation	$74,686,658	$80,523,000	$82,185,000	+$1,662,000
12 Personnel benefits	5,432,048	5,856,000	6,024,000	+168,000
21 Travel and transportation of persons:				
Employee	259,119	321,000	319,000	−2,000
All other	8,176,343	8,200,000	8,171,000	−29,000
22 Transportation of things	482,172	516,000	515,000	−1,000
23 Rent, communications, and utilities	1,121,842	1,183,000	1,183,000	
24 Printing and reproduction	101,096	100,000	99,000	−1,000
25 Other contractual services	12,946,789	11,424,000	11,725,000	+301,000
Medical fees	(8,035,889)	(8,075,000)	(8,281,000)	+(206,000)
Dental fees	(1,108,305)	(1,139,000)	(1,148,000)	+(9,000)
Other services	(3,802,595)	(2,210,000)	(2,296,000)	+(86,000)
26 Supplies and materials	20,443,495	20,933,000	21,031,000	+98,000
31 Equipment	986,529	1,360,000	557,000	−803,000
Replacement equipment	(701,665)	(932,000)	(377,000)	−(555,000)
Initial equipment for new facilities	(2,868)	(248,000)	(40,000)	−(208,000)
Initial equipment for existing facilities	(281,996)	(180,000)	(140,000)	−(40,000)
32 Lands and structures	5,877	10,000	10,000	
Net total costs	124,641,968	130,426,000	131,819,000	+1,393,000

MEDICAL CARE

INCREASE IN COST-FY 1965 OVER FY 1964

Outpatient Care Activities



OUTPATIENT CARE FOR CERTAIN PEACETIME VETERANS

Mr. BOLAND. You state that legislation actions which have increased the scope of outpatient services to veterans include Public Law 87–583, authorizing medical care to peacetime veterans suffering from noncompensable service-connected disabilities.

What do you anticipate the increased cost of this is for 1965?

If you do not have it, supply it for the record.

(The following was submitted for the record:)

With the enactment of Public Law 87–583 on August 14, 1962, the number of peacetime veterans receiving outpatient treatment from VA totaled 27,590 during fiscal year 1963, and is expected to increase to about 35,000 by fiscal year 1965. Treatment costs in the 1965 fiscal year are estimated at about $280,000 for these veterans, based on an average cost of $8 per visit.

OUTPATIENT CARE FOR VETERANS RESIDING ABROAD

Mr. BOLAND. Another legislative action which increased the scope of outpatient services to veterans was Public Law 87–815, authorizing medical care for veterans permanently residing abroad.

What do you anticipate the cost of that law will be for 1965?

Mr. WISE. We will have to supply that.

(The following was submitted for the record:)

Actual costs attributable to Public Law 87–815 in fiscal year 1963 were $84,165. For the fiscal years 1964 and 1965, the costs are estimated at about $135,000 for each year.

JUSTIFICATION MATERIAL—OUTPATIENT ACTIVITIES

Mr. BOLAND. We will put in the record pages 21–80, 21–81, and 21–82, which indicates the detail of cost changes reflecting a total increase of $1,393,000, mostly due to the pay increase of $1,632,000, and you have some decreases.

(The pages follow:)

OUTPATIENT ACTIVITIES

Program notes

Veterans with service-connected disabilities are provided medical and dental care by the staffs of VA outpatient facilities and by physicians and dentists participating in the hometown medical care program. Other outpatient services also available for eligible veterans consist of the following: (1) treatment for veterans of the Spanish-American War, the Boxer Rebellion and the Philippine Insurrection; (2) medical examination of claimants for compensation and pension, and to determine need for VA hospitalization; (3) treatment to avoid interruption of training to veterans receiving vocational rehabilitation; (4) nursing service, social service and guidance in nutrition; and (5) furnishing, fitting and repairing orthopedic appliances and sensory aids, and supplying pharmaceuticals.

Enactment of Public Law 86–639, July 12, 1960, authorized furnishing essential outpatient medical services incident to pre- and post-hospital care of veterans with non-service-connected disabilities. This has resulted in the establishment of outpatient services in all VA hospitals and has significantly realined distribution of employment, workloads, and costs between inpatient and outpatient activities of the medical care program. Under this legislation more effective use of hospital beds and more efficient use of hospital staff and facilities are possible. This also provides a broader spectrum of professional services available to veterans.

Other legislative actions which more recently have increased the scope of outpatient services to veterans include:

1. Public Law 87–583 approved August 14, 1962, authorizing medical care to peacetime veterans suffering from noncompensable service connected disabilities.

2. Public Law 87–815 approved October 10, 1962, authorizing medical care for veterans permanently residing abroad.

Medical care provided through the outpatient program supplants or reduces extended periods of costly hospitalization. In fiscal year 1963 outpatient services were provided by all VA hospitals and 33 outpatient clinics and 16 subclinics not located in a hospital setting. During fiscal year 1964 the outpatient clinic located at VA regional office, Cleveland, Ohio, will be consolidated with the VA hospital, Cleveland, Ohio. Three additional clinic consolidations are planned for fiscal year 1965 at VA hospitals, Wood, Wis.; San Francisco, Calif.; and Washington, D.C.

For fiscal year 1965, outpatient medical workloads are expected to increase due to activation of five additional day-care centers, increased compensation, and pension examination referrals, the new legislative entitlements previously mentioned, increased activity in the prebed care, completion of bed occupancy, and trial visit programs, and the general demand for services occasioned by an aging veteran population.

The five additional psychiatric day-care centers planned for activation in fiscal year 1965 will be located at Cleveland, Ohio; Dearborn, Mich.; Little Rock, Ark.; Houston, Tex.; and Albuquerque, N. Mex. These activations will increase the total number of day-care centers in operation to 29.

The estimate for fiscal year 1965 contemplates 65 additional personnel for the increased beneficiary loads including activation of the five new day-care centers and adding new medical services at existing facilities. In addition to salary funds for the new personnel, monetary increments are requested for payment of Public Law 87–793 salary rate and within-grade increases to existing employees, general rate increases in medical and dental fees, and increased utilization of drugs, medicines, prosthetic appliances, and related medical supplies.

Detail of changes in the number and composition of beneficiary loads

Increases of 25 employees and $38,000 are reflected under the "Change in Number and Composition of Beneficiary Load" column of the estimate, comprised of the following:

(*a*) Increases of 25 employees and $246,000 for activation of the 5 day-care centers. Workload increases of 25,000 medical visits are anticipated for these facilities in their initial year of operation; however, it is expected that the workload count will rise to about 37,000 in the second year without further staffing increases.

(*b*) Increase of 12,500 medical visits realized from increased productivity of day-care centers activated in fiscal year 1964 for which no additional funds are required.

(*c*) Decrease of $208,000 in requirements for initial equipment in newly constructed facilities.

Detail of cost changes

Public Law 87–793 and within-grade increases	+$1,632,000
One less workday and calendar day	−492,000
Change in number and composition of beneficiary load	+38,000
Improving the quality of medical treatment and adding new medical services at existing facilities	+283,000
Exclusion of fiscal year 1964 wage board increased costs from fiscal year 1965 column of this estimate	−10,000
Increased medical and dental fee rates	+250,000
Increased usage of utilities, drugs, medicines, medical supplies, and expense of operating central air-conditioning systems	+278,000
Increased prosthetic repairs and purchase of new prosthetic appliances	+166,000
Increase in reimbursements to Department of Labor for payments of benefits from employees compensation fund	+59,000
Maintenance and repair needs at aging medical facilities	+60,000
Decrease for object 31 replacement equipment program	−555,000
Decrease for management improvement actions	−316,000
Total increase	+1,393,000

Mr. BOLAND. How did you effect the decrease in management improvement actions?

Mr. WISE. By increasing the utilization of VA pharmacies.

Mr. BOLAND. Put in the tables on pages 21–84 and 21–85. Page 21–85 breaks down the outpatient activities.

(The pages follow:)

Comparison of cost by activity

	Fiscal year 1963, actual	Fiscal year 1964, estimated	Fiscal year 1965, estimated	Increase (+) or decrease (−) 1965 over 1964
Care of patients:				
Professional medical services	$23,864,797	$25,782,000	$26,429,000	+$647,000
Ancillary medical services	27,249,897	28,287,000	28,821,000	+534,000
Nursing services	3,650,535	3,936,000	4,012,000	+76,000
Physical medical and rehabilitation services	1,177,877	1,267,000	1,293,000	+26,000
Dietetic service	383,276	421,000	429,000	+8,000
Dental service	4,926,420	5,226,000	5,294,000	+68,000
Special treatment service	986,844	1,331,000	1,345,000	+14,000
Mental hygiene service	7,771,146	8,295,000	8,627,000	+332,000
Subtotal	70,000,792	74,545,000	76,250,000	+1,705,000
General administration:				
Office of Director	3,118,786	3,495,000	3,532,000	+37,000
Medical administrative division	24,650,457	25,966,000	26,255,000	+289,000
Fiscal division	1,885,557	1,982,000	2,003,000	+21,000
Personnel division	728,538	796,000	804,000	+8,000
Supply division	1,615,775	1,719,000	1,735,000	+16,000
Subtotal	31,999,113	33,958,000	34,329,000	+371,000
Housekeeping Division	774,449	838,000	838,000	
Engineering Division—Operation	1,040,906	1,066,000	1,070,000	+4,000
Engineering Division—M. & R.	702,980	720,000	778,000	+58,000
Asset acquisitions	1,008,964	1,370,000	567,000	−803,000
Other operating expenses:				
Care of dead	3,097,748	1,429,000	1,431,000	+2,000
Beneficiary travel, supplies for indigents, etc	8,066,353	8,161,000	8,130,000	−31,000
Central dental laboratory	674,317	706,000	716,000	+10,000
Prosthetic appliances and sensory aids	7,276,346	7,633,000	7,710,000	+77,000
Subtotal	19,114,764	17,929,000	17,987,000	+58,000
Net total costs	124,641,968	130,426,000	131,819,000	+1,393,000

Comparative analysis of costs and employment

Cost by object	Fiscal year 1963, actual		Fiscal year 1964, estimated		Fiscal year 1965, estimated		Increase (+) or decrease (−) 1965 over 1964	
	Full-time employees	Total cost	Full-time employees	Total cost	Full-time employees	Total cost	Full-time employees	Total cost
10 Personal services and benefits:								
Consultant and attendings	207	$1,762,705	220	$1,908,000	220	$1,900,000	----------	−$8,000
Nurses	252	2,178,219	259	2,346,000	259	2,385,000	----------	+39,000
Dentists	164	2,472,782	166	2,730,000	166	2,775,000	----------	+45,000
Physicians	1,322	20,535,673	1,375	22,654,000	1,395	23,270,000	+20	+616,000
Clinical and counseling psychiatrists	171	1,958,096	180	2,170,000	185	2,256,000	+5	+86,000
Wage rate employees	402	2,165,196	412	2,328,000	412	2,311,000	----------	−17,000
Purchase and hire	1	6,321	1	7,000	1	7,000	----------	----------
Other personnel	8,334	49,039,714	8,454	52,236,000	8,494	53,305,000	+40	+1,069,000
Subtotal	10,853	80,118,706	11,067	86,379,000	11,132	88,209,000	+65	+1,830,000
21 Travel:								
Employees travel	----------	259,119	----------	321,000	----------	319,000	----------	−2,000
Other travel	----------	8,176,343	----------	8,200,000	----------	8,171,000	----------	−29,000
Subtotal	----------	8,435,462	----------	8,521,000	----------	8,490,000	----------	−31,000
22 Transportation of things:								
Shipment of bodies	----------	232,654	----------	241,000	----------	241,000	----------	----------
Other transportation	----------	249,518	----------	275,000	----------	274,000	----------	−1,000
Subtotal	----------	482,172	----------	516,000	----------	515,000	----------	−1,000
23 Rents, communications and utility services:								
Communications	----------	709,816	----------	740,000	----------	740,000	----------	----------
Utility services	----------	236,447	----------	265,000	----------	265,000	----------	----------
Rental of medical and other equipment	----------	175,579	----------	178,000	----------	178,000	----------	----------
Subtotal	----------	1,121,842	----------	1,183,000	----------	1,183,000	----------	----------

Comparative analysis of costs and employment—Continued

Cost by object	Fiscal year 1963, actual		Fiscal year 1964, estimated		Fiscal year 1965, estimated		Increase (+) or decrease (−) 1965 over 1964	
	Full-time employees	Total cost	Full-time employees	Total cost	Full-time employees	Total cost	Full-time employees	Total cost
24 Printing and reproduction		101,096		100,000		99,000		−1,000
25 Other contractual services:								
Repairing prosthetic appliances		1,091,608		1,100,000		1,129,000		+29,000
Laundry services		36,061		36,000		36,000		
Medical, nursing, and dental fees		9,144,194		9,214,000		9,429,000		+215,000
Compensated therapy		1,178		2,000		2,000		
Contracting burials		2,198,525		584,000		580,000		−4,000
Repair furniture and equipment		136,862		139,000		140,000		+1,000
Medical and rehabilitative contracting services		94,752		95,000		155,000		+60,000
Other medical services		243,609		254,000		254,000		
Subtotal		12,946,789		11,424,000		11,725,000		+301,000
26 Supplies and materials:								
Provisions		39,172		40,000		42,000		+2,000
Drugs and medicines		8,866,494		9,163,000		9,403,000		+240,000
Blood and blood products		1,672		3,000		3,000		
Medical and dental supplies		1,989,487		2,102,000		2,096,000		−6,000
Fuels		50,078		52,000		51,000		−1,000
Operating supplies		455,182		460,000		461,000		+1,000
Medical and rehabilitative supplies		113,352		120,000		120,000		
Prosthetic appliances		4,546,014		4,635,000		4,659,000		+24,000
Linens		28,346		32,000		31,000		−1,000
Office supplies		274,450		280,000		281,000		+1,000
Other medical supplies		261,125		265,000		266,000		+1,000
Fee prescription		3,818,123		3,781,000		3,618,000		−163,000
Subtotal		20,443,495		20,933,000		21,031,000		+98,000
31 Equipment:								
Passenger vehicles		1,473		3,000		1,000		−2,000
Nonpassenger vehicles		2,298		18,000		30,000		+12,000
Furniture and fixtures		400,886		440,000		183,000		−257,000
Medical, dental, and scientific equipment		564,537		879,000		325,000		−554,000
Utilities and other operations		17,335		20,000		18,000		−2,000
Subtotal		986,529		1,360,000		557,000		−803,000
32 Lands and structures		5,877		10,000		10,000		
Total gross costs		124,641,968		130,426,000		131,819,000		+1,393,000

OUTPATIENT MEDICAL WORKLOADS

Mr. OSTERTAG. How do you arrive at an estimate of the total number of visits by veterans for outpatient care?

Mr. BOLAND. That table, incidentally, is on page 21–87. I see where you anticipate 6,011,800 total visits for outpatient treatments.

Mr. OSTERTAG. That is a slight increase over the last 2 years but there must be some basis for your estimating that number of visits.

Mr. WISE. With the five psychiatric day centers that will be activated, we would expect 5,000 workload count at each the first year. This would account for about 25,000 of the increase in load.

Mr. THOMAS. The test is how many patients you have?

Mr. WISE. Mr. Rosen, what do we have on individuals?

Mr. ROSEN. During the last fiscal year in our clinics we see 1.8 million patients, some 3 times a year.

As far as the method of estimating, a record is kept each time a patient visits the clinic.

Mr. BOLAND. This figure of 6,011,800 reflects the number of visits made by veterans to your outpatient clinics?

Mr. WISE. Yes.

Mr. OSTERTAG. On that basis there would be slightly over three visits on an average per patient.

Mr. WISE. On page 21–87 you will notice 3.9 million of this total are veterans we can generally expect repeat visits from. Those are visits for outpatient treatment. But in the other categories, such as insurance examinations or examinations for need of hospital or domiciliary care, these are more apt to be one-time examinations to determine the disposition that should be made of those cases.

Mr. THOMAS. These people do your preinduction work for your hospitals, too, do they not? How is it working out? How much time it is saving you?

Mr. WISE. There were about 22,000 examinations made in this particular category.

NUMBER OF CLINICS

Mr. THOMAS. Is there a clinic for every hospital?

Mr. WISE. Yes, sir.

Mr. THOMAS. How many hospitals do you have?

Mr. WISE. 169.

Mr. THOMAS. So you have 169 clinics?

Mr. WISE. Plus 33 more located in regional offices and in addition 16 subclinics, very small facilities.

Mr. THOMAS. What do they give you altogether?

Mr. BOLAND. 218.

CONSOLIDATION OF CLINICS WITH HOSPITALS

Mr. THOMAS. How many clinics have you moved to your hospitals?

Mr. WISE. About 35 or 36 have been consolidated in hospitals. We still have 33 in the regional offices, many of those being in the metropolitan areas such as New York City.

Mr. THOMAS. What has been the result where you have consolidated them?

Mr. WISE. We found two things. Generally there is a cash saving of around $50,000 made through consolidation. We have three consolidations planned in 1965. We also find greater medical benefits because of the broader range of services.

Mr. THOMAS. Why are you so slow in consolidating?

Mr. WISE. It is dependent on construction, space.

Mr. THOMAS. Space?

Mr. WISE. Yes. We will have three more consolidations in 1965.

Mr. THOMAS. What percentage are in hospital space and what percentage in rented space?

Mr. WISE. They are practically all in Government-owned buildings. Sometimes we activate new facilities in rented space. One of the psychiatric day-care centers for next year, in Cleveland, would be in rented space. I would say a good 95 percent are in Government-owned facilities.

Mr. BOLAND. I note that the ratio of staff visits at the outpatient clinics to fee physician visits is about 3 to 1, is it not?

Mr. WISE. Yes.

Mr. BOLAND. What is the total amount of money you expend for fee physicians under this program?

Mr. WISE. $9,429,000.

Mr. BOLAND. This is a combined total for medical, nurses and dentists?

Mr. WISE. Yes.

OUTPATIENT DENTAL WORKLOADS

Mr. BOLAND. Page 21–89 deals with outpatient dental workloads. [Reading:]

Staff workloads projected for fiscal years 1964 and 1965 were based on an increase in performance ratio of dentists to cases completed during fiscal year 1963. Fee costs for fiscal year 1965 are based on limited rate increases over fiscal year 1964 in the cost per case, based on new contracts now being negotiated in fee schedule for dental examinations and treatments.

Put in the record the table on page 21–90.
(The page follows:)

Outpatient dental estimate

	Fiscal year 1963, actual	Fiscal year 1964, estimated	Fiscal year 1965, estimated
Applications:			
Pending start of fiscal year	7,207	8,837	10,900
Received during fiscal year	106,550	108,700	109,100
Total workload	113,757	117,537	120,000
Disposed of during fiscal year	104,920	106,637	107,900
Pending, end of fiscal year	8,837	10,900	12,100
Examination cases completed	40,729	41,000	40,985
Staff	36,790	37,000	37,000
Fee	$3,949	$4,000	$3,985
Treatment cases completed	48,903	49,600	49,572
Staff	41,858	42,500	42,500
Fee	$7,045	$7,100	$7,072
Fee cost per case:			
Examination	$18.32	$18.50	$18.82
Treatment	147.06	150.00	151.73
Total fee cost	1,108,305	1,139,000	1,148,000
Examination	72,295	74,000	75,000
Treatment	1,036,010	1,065,000	1,073,000

Replacement of Motor Vehicles

Mr. Boland. Let us turn to "Replacement of motor vehicles on page 21–92 (reading):

The estimate provides $806,000 for replacement in fiscal year 1965 of 84 passenger-carrying vehicles and 172 non-passenger-carrying vehicles, listed on the following pages. Replacement of agency vehicles is based on General Services Administration standards of 6 years or 60,000 miles, whichever is first attained, and/or no longer are economically repairable.

I do not think we need a list of all these cars and where they are located.

Mr. Ostertag. What are the criteria on the replacements?

Mr. Gleason. That is stated on page 21–92, Mr. Ostertag. They must be 6 years or 60,000 miles, whichever occurs first.

If you will recall, sir, this sheet was made up June 30, 1963, so we have to estimate what it will be a good 12 to 18 months later. We figure all these vehicles listed here will have reached either the 6 years or the 60,000 miles.

Mr. Boland. Or complete dilapidation as at Perry Point, Md., where you have a 1962 Plymouth sedan with 32,500 miles.

Mr. Gleason. That is probably a vehicle going between Perry Point and Washington on daily trips to the hospital with patients that might be admitted.

Mr. Ostertag. Here is a station wagon at Mountain Home, Tenn., a 1962 Plymouth, with 24,824 miles.

Mr. WISE. These are reviewed very carefully and where we find the cost of repairing would greatly exceed the cost of replacement, it is only sensible to buy a new car.

Mr. GLEASON. I want to point out. You mentioned 1962. This is as of 1963 and I cannot tell you right now but this station wagon might be only 8 months old and if it had 24,000 miles on it when this table was made up, by the time we get our money in 1965 it will have 60,000 miles on it.

Mr. BOLAND. If any of these that meet the test are in good shape, do you keep them even if they have gone 60,000 miles?

Mr. GLEASON. We eventually turn them back to GSA.

Mr. BOLAND. Do you always make replacements?

Mr. GLEASON. No, sir.

Mr. BOLAND. Off the record.

(Discussion off the record.)

NURSING CARE PROGRAM

Mr. BOLAND. Before we leave medical items I think we ought to ask the Administrator about the nursing home problem. What do you plan to do here and how much money did you ask the Bureau of the Budget for and have they supplied you with that?

Mr. GLEASON. We believe there are sufficient funds in this budget we have requested to operate the nursing homes.

Mr. BOLAND. Give us a rundown on where you are operating them.

Mr. GLEASON. We are not operating them right now. We will have to come before this committee in another 2 or 3 weeks for a supplemental of $5 million or $6 million for renovating money to set up this program, at which time we will have the locations and plans. We do not have them now. If you will be good enough to bear with us until we come before you.

CANTEEN SERVICE REVOLVING FUND

Mr. BOLAND. Turning to the canteen service revolving fund, put in the record pages 22–1, through 22–5, and the table on financial condition on page 22–6.

(The pages follow:)

CANTEEN SERVICE REVOLVING FUND

No appropriation by the Congress will be required for the operation of the Veterans Canteen Service during fiscal year 1965. The Veterans Canteen Service was established by Congress in 1946 to furnish at reasonable prices merchandise and services necessary to the comfort and well-being of veterans in hospitals and dimiciliaries operated by the Veterans' Administration (38 U.S.C. 4201–4208). The budget estimate in the amount of $11,708,000 for the Veterans Canteen Service, fiscal year ending June 30, 1965, is submitted for the purpose of providing for its maintenance and operation.

The Congress originally appropriated a total of $4,965,000 for the operation of the Veterans Canteen Service and no additional appropriations have been required. Funds in excess of the needs of the Service totaling $8,400,000 have been paid to the Treasury. Funds in the amount of $311,000 will be paid to the Treasury during fiscal year 1964. Contingent upon the operating results for fiscal year 1964, and the capital requirements for fiscal year 1965, the 1965 estimate anticipates a further payment to the Treasury of $25,000.

Capital requirements

At the end of fiscal year 1963, there were canteens in operation at all VA hospitals and domiciliaries. Capital requirements for operation of the Veterans Canteen Service for fiscal year 1965 are as follows:

1. *Cash.*—(*a*) Petty cash and change funds: The average sum of $852 per canteen is considered necessary for the purpose of making limited local purchases, paying incidental operating and housekeeping expenses, and providing adequate change requirements. Such funds are established in amounts commensurate with the size and requirements of each individual canteen. Total requirements, $144,000.

(*b*) At the field station depositories: It is estimated that the average sum of $9,361 per canteen is necessary for the maintenance of field station depository accounts. Total requirements, $1,582,000.

(*c*) At the field offices and central office: It is estimated that the capital requirements for five field offices and central office will amount to $1,845,000. This total will provide a portion of the cash for payment of outstanding accounts payable, accrued payroll, withholding taxes, retirement, etc.

(*d*) Cash reserve in special deposit account: It is estimated that a $300,000 cash reserve in the special deposit account with the Treasury Department is required to provide a source for emergency cash requirements.

(*e*) Cash reserve for contingencies: It is estimated that a minimum cash reserve of $200,000 in the special deposit account with the Treasury Department is required to provide sufficient cash on hand for the following contingencies:

(1) To provide a reserve for losses that may materialize due to cost-price depreciation of merchandise inventory and decreased sales volume.

(2) To provide adequate protection for possible losses resulting from fire, robberies, or other casualties.

2. *Accounts receivable, prepaid expenses and other assets.*—It is estimated that accounts receivable, prepaid expenses, and other assets will be $534,000.

3. *Inventories—Commodies for sale.*—(*a*) Retail departments: It is estimated that a retail inventory of $5,042,000 is required.

(*b*) Food departments: It is estimated that a food department inventory of $286,000 is required.

(*c*) Service departments: Service department inventories consist primarily of vending machine stocks. It is estimated that an inventory of $18,000 is required.

4. *Equipment.*—Capital requirements for replacement of wornout equipment and remodelings during fiscal year 1965 are estimated to be $842,000.

Operating results

It is expected that sales will amount to $48,888,000 in fiscal year 1965, and that a net profit of $306,000 will be realized.

Personnel requirements

In the area of manpower control and utilization, the Veterans Canteen Service uses many of the techniques that are generally applied in commercial retail chainstore operations. Major consideration is given to salary expense in relation to sales. Salary expense data is provided to management personnel periodically for each department in each canteen, as well as consolidated data for each field office and the total Veterans Canteen Service. This data is compared to the corresponding period for the previous year and to the budget. This has been and will continue to be an effective control.

Although the major control is salary expense in relation to sales, other means, such as sales productivity figures per employee have been developed for the retail and food departments to determine trends. Studies will be continued and productivity data refined during fiscal years 1964 and 1965. It is expected that sales and services to be provided in fiscal years 1964 and 1965 will be increased without a commensurate increase in personnel.

It is estimated that a total of 2,576 permanent positions and 237 full-time equivalent of all other positions will be required in fiscal year 1965, as indicated in the following tabulation.

	Actual, 1963	Increase (+) or decrease (−) 1964 over 1963	Estimate, 1964	Increase (+) or decrease (−) 1965 over 1964	Estimate, 1965
Central office:					
Director's office	2		2		2
Merchandising	6		6		6
Procurement	15		15		15
Accounting and auditing	14		14		14
Personnel and administration	2		2		2
Subtotal	39		39		39
Field offices:					
Field director's office	14		14		14
Merchandising	48		48		48
Accounting	110	(1)	109		109
Subtotal	172	(1)	171		171
Canteens:					
Full-time hourly	1,710		1,710		1,710
Annual wage	250		250		250
Pieceworkers	406		406		406
Subtotal	2,366		2,366		2,366
Total permanent positions	2,577	(1)	2,576		2,576
Total full-time equivalent of all other positions	237		237		237
Total positions	2,814	(1)	2,813		2,813

Financial condition

The current assets of the Veterans Canteen Service consist of cash, accounts receivable, merchandise inventories, prepaid expenses, and other assets. At the close of fiscal year 1965, it is expected that cash on hand and on deposit will be $4,609,000. It is estimated that accounts receivable, consisting mainly of amounts due from personal funds of incompetent patients will be $518,000. It is believed a capital investment in inventory of $5,346,000 will be required. Prepaid expenses and other assets should amount to $16,000. Current assets are estimated to total $10,489,000. Current liabilities are estimated to be $3,197,000; this amount will be made up of trade accounts payable, accrued payrolls, accrued leave, unredeemed coupons, withholding taxes, retirement, and other current liabilities. The total working capital (current assets less current liabilities) as detailed above will amount to $7,292,000.

The total budget estimate for the Veterans Canteen Service for fiscal year 1965 is made up as follows:

Total working capital	$7,292,000
Investment in equipment, net	4,416,000
Total investment of U.S. Government	11,708,000

Revenue, expense, and retained earnings

	1963 actual	1964 estimate	1965 estimate
Sales program:			
Revenue	$46,646,993	$48,067,000	$48,888,000
Expense	46,014,929	47,816,000	48,693,000
Net operating income, sales program	632,064	251,000	195,000
Nonoperating income or loss (−):			
Proceeds from sale of equipment	40,704	35,000	35,000
Net book value of assets sold (−)	−75,323	−60,000	−60,000
Net gain or loss (−) from sale of equipment	−34,619	−25,000	−25,000
Miscellaneous income	134,198	135,000	136,000
Net nonoperating income	99,579	110,000	111,000
Net income for the year	731,643	361,000	306,000
Analysis of retained earnings:			
Retained earnings, start of year	11,779,172	11,011,000	11,061,000
Payment of excess funds to Treasury (−)	−1,500,000	−311,000	−25,000
Retained earnings, end of year	11,010,815	11,061,000	11,342,000

Financial conditions

	1963 actual	1964 estimate	1965 estimate
Assets:			
Cash with Treasury, in banks, on hand, and in transit	$5,416,592	$4,938,000	$4,609,000
Accounts receivable	516,153	518,000	518,000
Commodities for sale	5,230,301	5,346,000	5,346,000
Prepaid expenses and other assets	16,243	16,000	16,000
Fixed assets, net	3,604,808	4,179,000	4,416,000
Total assets	14,784,102	14,997,000	14,905,000
Liabilities: Current	3,407,488	3,570,000	3,197,000
Government equity:			
Non-interest-bearing capital:			
Start of year	363,971	366,000	366,000
Donated property	1,828		
End of year	365,799	366,000	366,000
Retained earnings	11,010,815	11,061,000	11,342,000
Total Government equity	11,376,614	11,427,000	11,708,000

Mr. BOLAND. Any questions on that?
(No response.)

RENTAL, MAINTENANCE, AND REPAIR OF QUARTERS

The next tab is rental, maintenance, and repair of quarters, page 23–1. [Reading:]

There are available for leasing to Federal employees 128 housekeeping units under this fund located at Perry Point, Md. These units, which were transferred to the Veterans' Administration in 1925, were constructed prior to World War I and consequently are in need of considerable modernization, maintenance, and repair.

Put in the record pages 23–1 and 23–2.
(The pages follow:)

RENTAL, MAINTENANCE, AND REPAIR OF QUARTERS

There are available for leasing to Federal employees 128 housekeeping units under this fund located at Perry Point, Md. These units, which were transferred to the Veterans' Administration in 1925, were constructed prior to World War I and consequently are in need of considerable modernization, maintenance, and repair.

Due to the need for providing living quarters as an incentive to recruit and retain the services of key employees, a long-term program is maintained to defray from rental income all operating, maintenance, repairs and, as possible, modernization expenses incidental thereto (38 U.S.C. 5012(a)). Rental charges are determined in accordance with instructions contained in Bureau of the Budget Circular A–45, which require that charges be set at comparable community rates, based on fair appraisals.

Because of the extensive backlog of maintenance and repair work, virtually all income must be applied to the upkeep of the quarters to assure even minimal living standards. The age and type of construction of the units will require continuing maintenance in future years.

Statement of income and expense

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Income: Rentals received	$88,105	$92,000	$92,000
Total income	88,105	92,000	92,000
Expense:			
Maintenance and repair	54,521	54,000	55,000
Fuel, utilities, and services	36,462	38,000	37,000
Total expense	90,983	92,000	92,000
Net operating income or loss (−)	−2,878		

Statement of financial condition

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Assets:			
Cash with Treasury	$1,836	$1,234	$1,234
Accounts receivable	1,721	2,000	2,000
Total assets	3,557	3,234	3,234
Liabilities: Current	938	1,000	1,000
Government equity: Retained earnings	2,619	2,234	2,234
Total Government equity	2,619	2,234	2,234

Mr. BOLAND. What are these quarters for? Just for employees?

Mr. GLEASON. Yes, sir.

Mr. BOLAND. This is an area where it is difficult to get housing, or what is the situation?

Mr. MONK. It is difficult to get housing and we spend the rental income to maintain the property.

Supply Program

Mr. Ostertag. Page 24–1 is the supply program. [Reading:]

The supply program is responsible for providing supply services to all organizations in the Veterans' Administration, and for the procurement and distribution of drugs, biologicals, official reagents, and nonperishable subsistence for all civilian agencies.

Mr. Ostertag. I think we might insert the narrative on pages 24–1, 24–2, and 24–3.

(The pages follow:)

SUPPLY PROGRAM

General statement

The supply program is responsible for providing supply services to all organizations in the Veterans' Administration, and for the procurement and distribution of drugs, bilogicals, official reagents, and nonperishable subsistence for all civilian agencies. The program provides a source of supply through VA supply depots and national VA contracts to hospitals of the Department of Health, Education, and Welfare, and provides medical supplies and equipment to the government of American Samoa. It provides for the stockpiling and distribution of civil defense material for DOD and HEW and for fire protection and guard services for GSA stockpiles located at Somerville Depot. Three supply depots, a publication depot, and 170 field supply activities provide purchasing and warehousing facilities.

Program notes

The objective of the supply program is to provide quality support for all programs in the VA and to assure for the agency the greatest return for every dollar spent for the acquisition, maintenance, and utilization of supplies, equipment, and services.

The program provides—

1. A staff office for promoting more effective and economical operations, developing plans, policies, standards, cost controls, methods, overall management of the supply fund, and for the appraisal and evaluation of the supply program for the Administrator through the Assistant Administrator for Management and Evaluation.
2. An operations office which provides centralized direction of the supply activities.
3. A system for agency supply standardization and cataloging, personal property management, property utilization and disposal, and for financing and management of inventories.
4. Centralized direction of field supply operations.
5. A national buying system for the procurement of supplies, equipment, and services. National buying is designed to consolidate requirements and purchases of all items for which there is a price advantage in volume buying.
6. The management and operations of three VA supply depots for economical storage and distribution.
7. A service and reclamation program for the repair and reclamation of supplies and equipment nationwide, and for providing laboratory inspection and testing services for technical instruments, equipment, and supplies.
8. A national buying system for the procurement, printing, and distribution of forms, form letters, publications (manuals, circulars, etc.), and other printed material as authorized by the Joint Committee on Printing.
9. Field station supply activities for the local purchase of all items for which there is no price advantage in volume buying and for the purchase of goods and services which are not made available from GSA or other mandatory sources. These activities also provide for storage and issue of supplies and equipment to field station users. They perform functions

of supply accounting, utilization, and disposal of property, equipment maintenance, and supply fund administration. They furnish hospitals, outpatient clinics, regional offices, insurance centers, etc. with drugs, medical supplies, and equipment; orthopedic appliances; engineering supplies and equipment; etc.; also contractual services such as equipment rental, maintenance and repair of office machines, laundry services, etc.

Supply fund financing

The supply fund finances, on a reimbursable basis, the procurement of supplies and equipment consumed throughout the VA; the operating expenses of the three VA supply depots, including acquisition, cost, and depreciation of operating equipment; the cost of the service and reclamation program; and the cost of production, procurement, and distribution of printed matter for the VA. Appropriations reimburse the fund for the cost of supplies and equipment provided and services rendered by the above specified activities, including related expense such as transportation, inspection, and testing. The fund is expected to break even in fiscal year 1965.

Appropriations financing

The following costs are direct charges to appropriations and are not financed by the supply fund:

1. Personal services of the supply program in central office and field stations.
2. Nonpersonal services such as contracts for laundry service, office machine repairs, research (medical and prosthetic), etc.

Workload

The total dollar volume produced in the supply program amounted to $216,874,366 actual, fiscal year 1963; $226,579,238 estimated, fiscal year 1964; and $231,395,220 estimated, fiscal year 1965.

Cost trends

Manpower and cost controls are used to insure operational effectiveness of the supply program. The following cost trends express the ratio of supply salary costs to each $100 of total workload produced for VA and other Government activities.

Fiscal year 1963, actual	$10.01
Fiscal year 1964, estimate	10.21
Fiscal year 1965, estimate	10.20

Explanation of increases

Increase of two average employment financed by the supply fund at supply depots for increased service required in the personal property maintenance program.

Increase of 3 average employment at field supply activities is required for advanced staffing of the new VA hospital, Washington, D.C.

Mr. OSTERTAG (reading):

The total dollar volume produced in the supply program amounted to $216,874,366 actual, fiscal year 1963; $226,579,238 estimated, fiscal year 1964; and $231,395,220 estimated, fiscal year 1965.

We have a good table here on page 24–4, as well as page 24–5. Then we have the "Program by activities" on page 24–6.

(The pages follow:)

Summary of Supply Activities

Average employment and distribution of costs

	Fiscal year 1963, actual		Fiscal year 1964, estimate		Fiscal year 1965, estimate		Increase (+) or decrease (−) fiscal year 1965 over fiscal year 1964	
	Average employment	Cost	Average employment	Cost	Average employment	Cost	Average employment	Cost
Management and evaluation staff [1]	21	204,776	22	230,224	22	236,233	----------	+6,009
Supply service, D.M. & S. (administration and operations including area offices) [2]	112	942,117	123	1,111,884	123	1,137,120	----------	+25,236
Supply fund operations [3]	604	3,619,781	617	3,902,884	619	4,024,584	+2	+121,700
Supply depots	(449)	(2,704,985)	(462)	(2,945,740)	(464)	(3,051,523)	(+2)	(+105,783)
Printing and reproduction	(155)	(914,796)	(155)	(957,144)	(155)	(973,061)	----------	(+15,917)
Field station supply activities	2,975	16,934,012	2,978	17,885,206	2,981	18,205,350	+3	+320,144
C.O. supply activities [4]	(20)	(120,352)	(21)	(132,423)	(21)	(136,303)	----------	(+3,880)
Subtotal, average employment and personnel compensation	3,712	21,700,686	3,740	23,130,198	3,745	23,603,287	+5	+473,089
12 Personnel benefits	----------	1,592,050	----------	1,691,729	----------	1,726,557	----------	+34,828
21 Travel and transportation of persons	----------	103,552	----------	149,647	----------	150,030	----------	+383
23 Rents, communications, and utilities	----------	206,178	----------	237,650	----------	243,300	----------	+5,650
24 Printing and reproduction	----------	80,243	----------	77,395	----------	78,125	----------	+730
25 Other services	----------	239,362	----------	226,168	----------	205,070	----------	−21,098
26 Supplies and materials	----------	533,751	----------	520,716	----------	494,150	----------	−266,566
31 Equipment	----------	69,772	----------	74,210	----------	77,830	----------	+3,620
Total	3,712	24,525,594	3,740	26,107,713	3,745	26,578,349	+5	+470,636

[1] Included and funded under general operating expenses appropriation.

[2] Included and funded under medical administration and miscellaneous operating expenses appropriation.

[3] Excludes employment and costs for services rendered GSA, HEW and DOD on a reimbursable basis: fiscal year 1963, average employment 61, cost $374,406; fiscal year 1964, average employment 73, cost $438,520; fiscal year 1965, average employment 73, cost $448,666.

[4] Included and funded under medical care appropriation.

Inventory and sales data, fiscal year 1963

Supplies and equipment	Average monthly inventory			Sale of goods	Ratio of sales to inventory
	Field stations	Supply depots	Total		
Provisions	$2,022,057	$4,795,756	$6,817,813	$46,318,661	6.8
General supplies	2,445,830	2,106,786	4,552,616	32,941,177	7.2
Drugs and medicines	4,440,169	2,259,481	6,699,650	29,459,595	4.4
Equipment	98,307	2,927,542	3,025,849	28,786,192	9.5
Other medical supplies	2,937,089	5,307,707	8,244,796	24,644,424	3.0
Fuel	989,776		989,776	5,828,024	5.9
Low sales and standby	1,752,669		1,752,669	2,362,728	1.3
Stocks withdrawn for shipment (unclassified)		382,421	382,421		
Repair services (S. & R.)				227,275	
Total	14,685,897	17,779,693	32,465,590	170,568,076	5.3
In transit between depots and stations			2,158,799		
S. & R. storeroom stocks			75,839		
S. & R. work in process			31,297		
Subtotal			34,731,525	170,568,076	4.9
Printing and reproduction:					
Forms, form letters			686,719	3,011,829	4.4
Work in process			13,060		
Total			35,431,304	173,579,905	4.9

NOTE.—Data provided in this table relates sales to average monthly inventory to reflect ratio of sales to inventory investment.

SUPPLY FUND

Program and financing

	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate
Program by activities:			
Operating costs, funded:			
1. Procurement, distribution, and services program:			
Cost of goods sold	$166,127,531	$173,680,305	$174,085,089
Other expense	5,456,376	6,164,382	6,389,003
2. Publications and reproduction program:			
Cost of goods sold	1,739,975	1,865,998	1,894,535
Other expense	1,224,602	1,253,918	1,269,537
Total operating costs, funded	174,548,484	182,964,603	183,638,164
Capital outlay:			
1. Procurement, distribution and services program: Purchase of equipment	103,076	71,920	46,600
2. Publications and reproduction program: Purchase of equipment	19,226	77,235	31,390
Total capital outlay	122,302	149,155	77,990
Total program costs, funded	174,670,786	183,113,758	183,716,154
Change in selected resources	4,636,492	−2,671,441	8,000
Total obligations	179,307,278	180,442,317	183,724,154
Financing:			
Revenue and other receipts: Procurement, distribution, and services program, revenue	171,911,529	179,904,732	180,528,957
Publications and reproduction program: Revenue	3,011,829	3,149,681	3,194,837
Total revenue	174,923,358	183,054,413	183,723,794
Unobligated balance brought forward (negative)	−10,723,389	−15,107,309	−12,667,987
Capital transfer: Payment of earnings (negative)		−172,774	
Unobligated balance carried forward (negative)	15,107,309	12,667,987	12,668,347
Financing applied to program	179,307,278	180,442,317	183,724,154

Mr. OSTERTAG. The total financing applied to the program is estimated at $183,724,154 as compared to $180,442,317.

Under "Operating costs funded": Procurement, distribution and services program, costs of goods sold, you estimate at $174 million which is a slight increase over fiscal year 1964.

Under "Publications and reproduction program," there is a slight increase over last year.

Under "Capital outlay" this also calls for an increase of about $3.5 million.

Mr. THOMAS. There are 3 supply depots and 170 field stations. Let us look at the big table there and see if we want to put that in the record.

Mr. OSTERTAG. We already have that in the record, page 24–4.

Mr. THOMAS. You have 170 supply stations and 3 depots.

What is the amount of your revolving fund now? How much inventory do you have?

Mr. COOK. The inventory at the end of fiscal 1963 is $34,134,994.

Mr. THOMAS. How much cash do you have?

Mr. COOK. At the same time we had $13,389,000.

Mr. THOMAS. How much cash was originally put into the fund?

Mr. COOK. Nothing, sir. You permitted us to capitalize the value of the goods already purchased.

Mr. OSTERTAG. That is all set out on page 24–8.

Mr. THOMAS. How much was the original capitalization?

Mr. COOK. The original capitalization was about $51 million.

Mr. THOMAS. Then you have 24 plus 13, but what became of your other assets?

Mr. COOK. We gave $15 million to the Treasury.

Mr. THOMAS. When?

Mr. COOK. I do not recall the exact date but I think it was 1955 or 1956.

ECONOMIES RESULTING FROM SUPPLY FUND OPERATIONS

Mr. THOMAS. What do you figure you are saving the taxpayers and the Veterans Administration if it costs $10.20 per hundred of business? What do you figure you save, if anything?

Mr. COOK. It would vary according to the kind of commodity we are talking about. We figure on foodstuffs the savings would be somewhere in the neighborhood of 15 percent.

Mr. THOMAS. Chainstores do not take that much gross profit. It is much less than that. What is their markup?

Mr. COOK. Sir, the difference is not only in the chainstore markup but the wholesale distributors' markup.

Mr. THOMAS. The vast majority of your purchases are from chainstores, are they not?

Mr. COOK. No, sir.

Mr. THOMAS. When you go into your big city hospitals, do they buy locally? How do they buy, from the chainstores?

Mr. COOK. No, sir; the biggest item would be meat and we go directly to the packer.

Mr. THOMAS. What about fresh turnip greens, oranges, and black-eyed peas?

Mr. COOK. We go to the wholesale market, not retail.

Mr. THOMAS. What do you figure you save on fresh vegetables?

Mr. COOK. This would be a guess but I would say 10 percent.

Mr. THOMAS. You are bound to save some money though, are you not? The markup is pretty low on food, generally, is it not?

Mr. COOK. Yes, sir.

Mr. BOLAND. What is the markup in Safeway or Giant? Usually about 3 or 4 percent?

Mr. COOK. Yes, sir; for supermarkets of this type. In this total it might average that but it goes all the way from 1 percent on bread to 30 percent on something like coffee.

BAKERIES AT VA INSTALLATIONS

Mr. OSTERTAG. You do not buy bread on the open market, do you?

Mr. COOK. No, sir.

He asked about the markup in the retail stores.

Mr. BOLAND. Do you do your own baking?

Mr. GLEASON. In some places.

Mr. THOMAS. At all of your sizable institutions, you have your own bakeshops, do you not?

Mr. GLEASON. Yes, sir.

Mr. BOLAND. Is it more expensive to do it this way than buy it outside?

Mr. COOK. Sir, there were some studies made several years ago and at those hospitals where it was found to be cheaper to buy commercially we closed our own bakeries.

Mr. GLEASON. A lot of places, you just cannot buy it.

FINANCIAL CONDITION—SUPPLY FUND

Mr. OSTERTAG. Let us put page 24–8 in the record.

(The page follows:)

SUPPLY FUND

Financial condition

	Fiscal year 1962 actual	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Assets:				
Cash with Treasury	$11,605,492	$13,389,952	$14,032,013	$14,932,653
Accounts receivable, net	6,889,066	5,820,876	3,000,000	2,000,000
Selected assets:				
Commodities for sale	34,163,639	34,134,994	35,880,000	35,987,000
Prepaid expenses and other assets	118,013	126,958	125,000	125,000
Fixed assets, net	544,323	589,228	648,573	640,933
Total assets	53,320,533	54,062,008	53,685,586	53,685,586
Liabilities: Current	13,459,650	13,903,648	13,700,000	13,700,000
Government equity:				
Non-interest-bearing capital:				
Start of year	39,669,061	39,985,586	39,985,586	39,985,586
Donated assets, net	316,525			
End of year	39,985,586	39,985,586	39,985,586	39,985,586
Retained earnings or deficit (−)	−124,703	172,774		
Total Government equity	39,860,883	40,158,360	39,985,586	39,985,586

GOVERNMENT EQUITY IN SUPPLY FUND

Mr. OSTERTAG. At the start of the year, you have equity of $40 million in the capital fund. It is a non-interest-bearing capital fund but what is the nature of that capital?

Mr. THOMAS. Merchandise.
Mr. OSTERTAG. I want to find out.
Mr. COOK. It is mostly inventory, sir.
Mr. OSTERTAG. Inventory of stocks?
Mr. COOK. Yes, sir; and cash in excess of our outstanding bills.
Mr. OSTERTAG. The cash is $4 million and the balance would be stocks, is that correct?
Mr. COOK. Yes, sir.

GENERAL POST FUND, NATIONAL HOMES

Mr. BOLAND. Let us take up "General Post Fund, National Homes." This is a fund which is generated by gifts from property left in the care of the facilities by former beneficiaries or the general public at large. This is something with which we are familiar. It is interesting people would actually leave funds to these institutions because they are grateful for the care that has been given to them or their families or their friends.

I do not have any questions.

Let us insert in the record pages 25–1, 25–2, and 25–3.

(The pages follow:)

GENERAL POST FUND, NATIONAL HOMES

This fund consists of gifts, bequests, and proceeds of property left in the care of the facilities by former beneficiaries or the general public; unpaid pension money standing to the credit of beneficiaries who die without pensionable heirs; and proceeds from effects of such beneficiaries who die leaving no heirs or without having otherwise disposed of their estates. Such funds are available to promote the comfort and welfare of the veterans at the various hospitals and homes, and are used for purposes for which appropriated funds normally are not available, or where the items desired are sufficiently low on the priority list as would preclude their being provided from appropriated funds on a timely basis. (38 U.S.C. 83 and 85.)

During fiscal year 1964, it is estimated that cash expenditures from the fund will approximate $1,638,000, comprised of $1,263,000 for supplies and services, $20,000 for settlement of estates and claims, and $355,000 for recreational and religious facilities and equipment. The expenditures are in accord with purposes for which the fund legally may be expended (Controller General's Decision B–125715, Nov. 10, 1955), and the intent of the donors. Donors usually specify that their donations be used for designated recreational or religious projects or equipment purchases.

In fiscal year 1965, expenditures for supplies and services are estimated at $1,280,000 in keeping with small but steady increases being experienced each year. Estimated expenditures for the settlement of estates and claims are projected on the actual cost for fiscal year 1963. Approximately $355,000 will be expended for recreational and religious equipment and facilities projects required for the patients and members. An invested reserve of approximately $2,400,000 will be maintained to meet claims for estate settlements which must be held in trust for a legal period of 5 years after the demise of intestate veteran beneficiaries.

Cash receipts from donations and estates for each of the fiscal years 1964 and 1965 is estimated at $1,830,000.

Statement of income and expense

	Fiscal year 1963 actual	Fiscal year 1964 estimated	Fiscal year 1956 estimated
Income:			
Cash receipts from donations, estates, etc.	$1,816,170	$1,830,000	$1,830,000
Interest on investments	57,868	65,000	75,000
Discounts or premiums on investments purchased	632		
Equipment and facilities donated	224,675	225,000	225,000
Supplies and services donated	2,265,832	2,275,000	2,275,000
Total income	4,375,177	4,395,000	4,405,000
Expenses: [1]			
Supplies and services consumed	3,466,713	3,485,000	3,502,000
Settlement of claims and estates	19,287	20,000	20,000
Writeoffs and adjustments	238,490	240,000	240,000
Total expense	3,724,490	3,745,000	3,762,000
Net income	650,687	650,000	643,000

[1] Excluding net amounts expended for investments and equipment and facilities included in comparable asset account: Fiscal year 1963 actual, $569,688; fiscal year 1964 estimated, $620,000; fiscal year 1965 estimated, $655,000.

Statement of financial condition

	Fiscal year 1963 actual	Fiscal year 1964 estimated	Fiscal year 1965 estimated
Assets:			
Cash on hand and in transit	$3,203	$3,000	$3,000
Cash with U.S. Treasury	1,358,469	1,350,000	1,300,000
Accounts receivable	44,312	30,000	30,000
Interest receivable	11,147	12,000	13,000
Investments in U.S. securities	1,835,000	2,100,000	2,400,000
Inventories, supplies	5,218	5,000	5,000
Equipment and facilities	4,228,497	4,386,000	4,527,000
Total assets	7,485,846	7,886,000	8,278,000
Liabilities and capital:			
Disbursements in transit	27,748	25,000	25,000
Accounts payable	90,436	75,000	75,000
Total liabilities	118,184	100,000	100,000
Trust capital	7,367,662	7,786,000	8,178,000
Total liabilities and capital	7,485,846	7,886,000	8,278,000

Mr. BOLAND. Is all of this money used for the general welfare of the patient where you are going to buy games or something to make their lives a little bit easier?

Mr. GLEASON. Yes, sir.

Mr. BOLAND. That is all.

CONSTRUCTION OF HOSPITAL AND DOMICILIARY FACILITIES

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
	VETERANS' ADMINISTRATION			
11	Personnel compensation:			
	Permanent positions	2,468	2,775	2,929
	Positions other than permanent	651	655	652
	Other personnel compensation	13	34	24
	Total personnel compensation	3,132	3,464	3,605
12	Personnel benefits	197	228	239
21	Travel and transportation of persons	110	120	120
22	Transportation of things	2	2	2
23	Rent, communications, and utilities	19	19	19
24	Printing and reproduction	7	7	7
25	Other services	5,057	5,000	5,000
26	Supplies and materials	324	500	500
31	Equipment	2,917	6,300	3,550
32	Lands and structures	56,593	63,145	75,569
	Total costs, Veterans' Administration	68,358	78,785	88,611
	ALLOCATION TO DEFENSE—CIVIL, ARMY			
25	Other services	136	2,361	2,310
	Total costs, Army—Civil	136	2,361	2,310
	Total costs	68,494	81,146	90,921
	Change in selected resources	3,188	50,812	8,377
	Total obligations	71,682	131,958	99,298

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	344	363	369
Full-time equivalent of other positions	75	75	75
Average number of all employees	377	401	410
Employees in permanent positions, end of year	327	325	335
Employees in other positions, end of year	107	106	106
Average GS grade	8.6	8.6	8.6
Average GS salary	$8,026	$8,513	$8,746

Program and financing

[In thousands of dollars]

	Costs to this appropriation					Analysis of 1965 financing			
	Total estimate	To June 30, 1962	1963 actual	1964 estimate	1965 estimate	Deduct selected resources and unobligated balance, start of year	Add selected resources and unobligated balance, end of year	Appropriation required for 1965	Appropriation required to complete
Program by activities:									
1. Hospitals:									
(a) New	122,813	90,930	14,986	10,642	4,293	6,255	1,962		
(b) Replacement	396,888	51,892	14,801	24,641	46,181	116,279	140,052	69,954	119,321
(c) Modernization	226,316	74,042	19,435	16,459	16,692	17,415	19,014	18,281	80,674
(d) Other improvements	93,759	3,194	17,576	24,975	18,139	18,254	6,956	6,841	22,919
2. Domiciliaries	7,463	153	336	1,474	75		425	500	5,000
3. Regional offices and supply depots	116		79	37					
4. Research facilities	19,590	1,917	1,258	2,665	5,317	5,414	6,511	6,414	1,922
5. Experimental hospital facilities	500		23	253	224	224			
Total program costs, funded	867,445	222,128	68,494	81,146	90,921	163,841	174,920	102,000	229,836
Change in selected resources [1]			3,188	50,812	8,377				
Total obligations			71,682	131,958	99,298				
Financing:									
Unobligated balance brought forward			−67,271	−72,589	−17,427				
Unobligated balance carried forward			72,589	17,427	20,129				
New obligational authority (appropriation)			77,000	76,796	102,000				

[1] Selected resources as of June 30, are as follows:

	1962	1963	1964	1965
Unpaid undelivered orders	90,558	93,396	144,758	153,235
Advances	1,856	2,206	1,656	1,556
Total selected resources	92,414	95,602	146,414	154,791

Mr. THOMAS. Let us take a look at construction, gentlemen. You have two programs here, 1700 and 9000.

Let us put the tables on page 26–2 in the record. Also insert page 26–3.

(The pages follow:)

ASSISTANT ADMINISTRATOR FOR CONSTRUCTION

CONSTRUCTION OF HOSPITAL AND DOMICILIARY FACILITIES, $102,000,000

A construction program of $102,010,000 is recommended for 1965 to be financed with new obligational authority of $102,000,00 and savings of $10,000 from a completed project at McKinney, Tex. The appropriation limitation cited in Public Law 623, 84th Congress, 2d session, must be changed before the McKinney savings can be used. The appropriation requested is the fifth increment toward financing the 15-year program for replacement and modernization of our existing hospital facilities.

The substantial increase for 1965 over the $75 to $77 million funding level for 1961–64 is requested to advance the schedule for constructing a 720-bed replacement hospital at San Juan, P.R. When San Juan is completed, the VA can reduce a large number of contract beds and furnish 40 beds to meet the needs of the Department of the Army. As planned, VA is to provide bed requirements for the Department of the Army in lieu of constructing a separate hospital for the Army.

This request also includes $630,000 for fallout shelter facilities in replacement hospitals as follows: for construction only, $200,000 each for Hines, Ill., phase I, Los Angeles, Calif., and San Juan, P.R.; and for planning only, $20,000 for Chicago (S.S.), Ill., and $10,000 for Northport, N.Y.

The financial summary shown below includes only the following: (1) 55 new projects for which initial funds are requested in 1965; and (2) 328 projects in process which include only those projects having unobligated balances of 1964 or previous year appropriations on hand.

Summary for new projects and projects in process

[Thousands of dollars]

Program	Total estimated cost	Appropriation available through 1964	Appropriation request for 1965			Appropriation required after 1965 [1]
			New projects	Projects in process	Total for 1965	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Replace hospitals	438,265	297,255	1,800	68,154	69,954	71,056
Modernization	168,282	101,341	7,298	11,003	18,301	48,640
Other improvements	91,350	61,590	4,485	2,356	6,841	22,919
Domiciliaries	7,300	1,800	500		500	5,000
RO and supply depots	56	56				
Research facilities	19,241	10,905	1,416	4,998	6,414	1,922
Experimental hospital facilities	500	500				
Total programed	724,994	473,447	15,499	86,511	102,010	149,537
Savings—McKinney, Tex., lim				−10	−10	
Net appropriation request, 1965			15,499	86,501	102,000	

[1] Covers balance of technical services and construction funds for projects on which only partial funding has been requested through 1965.

Replacement hospitals.—The $69,954,000 requested for this activity provides $1,800,000 for acquisition of building site and initial planning funds for a "new project"; and $68,154,000 to complete the financing of eight "projects in process."

Modernization.—The $18,301,000 requested under this activity includes $7,298,000 for seven "new projects" and $11,003,000 to complete the financing of seven "projects in process."

Other improvements.—The $6,841,000 requested for this activity includes $4,485,000 for 41 "new projects" and $2,356,000 to complete the financing of two "projects on process."

Domiciliaries.—The $500,000 requested for this activity is to start one "new project."

Research facilities.—The $6,414,000 requested for this activity includes $1,416,000 for five "new projects" and $4,998,000 to complete the financing of five "projects in process."

Description of new projects.—Detailed descriptions of new projects included in this request are shown on pages 26–10 through 26–14.

Mr. THOMAS. You have 328 projects now in progress and in the construction program this year you are looking for $102 million at which $86,501,000 is for projects in process. What was it in 1964?

Mr. SCHWEICKART. $77 million.

Mr. THOMAS. Let us look at page 26–4 for a complete breakdown. You want $102 million and the appropriation requested, you say, is a fifth increment toward financing a 15-year program for replacement and modernization.

The substantial increase for 1965 is about $25 million, is it?

Mr. GLEASON. Yes, sir.

NEW VA HOSPITAL, SAN JUAN, P.R.

Mr. THOMAS. Is it requested to advance the schedule for construction of 720 bed-replacement hospitals in San Juan? San Juan is completed, but you say the Veterans Administration can reduce a large number of contract bids. You are going to do business with the Army? What are they going to bring you in this? Are they going to bring you out whole?

Mr. GLEASON. $26 a day as of right now.

Mr. THOMAS. They will bring you out whole, whatever it is?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Is this going to be NP, TB, and G.M. & S.?

Mr. THOMAS. Is this going to be NP, TB, and G.M. & S.? No NP cases?

Mr. GLEASON. We do have some NP beds.

Mr. THOMAS. Your biggest patient load is in NP now?

Dr. MCNINCH. NP and G.M. & S.; both.

Mr. THOMAS. How are the beds broken down?

Mr. MONK. 240 NP beds, 400 medical and surgical beds, 40 TB beds, and 40 beds to meet the requirements of the Department of the Army.

Mr. THOMAS. Let us take a look at this request which includes $630,000 for fallout shelters in replacement hospitals as follows: for construction only, $200,000 each for Hines, Ill.—phase 1, Los Angeles, Calif., San Juan, P.R.; and for planning only $20,000 for Chicago, Ill., and $10,000 for North Port, N.Y. Planning only?

Mr. GLEASON. We have not even started phase 1 at Chicago.

Mr. THOMAS. At Hines?

Mr. GLEASON. No, sir.

Mr. THOMAS. You have completed phase 1 this year there?

Mr. GLEASON. Not at Hines.

Mr. THOMAS. You are going to start on phase 1 in Hines when, next year?

Mr. GLEASON. Yes, sir; 1965.

Mr. THOMAS. You say $20,000 for Chicago?

Mr. GLEASON. The new South Side Hospital.

FALLOUT SHELTERS

Mr. THOMAS. You show $630,000 for fallout shelter facilities.

Mr. MONK. Yes, sir.

Mr. THOMAS. The Congress has killed fallout four times. How many times do you have to kill it until it becomes dead?

Mr. MONK. We have to put it in here.

Mr. THOMAS. Why?

Mr. MONK. We are required to.

Mr. GLEASON. We are going to keep trying, Mr. Chairman.

Mr. THOMAS. I ask again, it is never dead, is that it?

Mr. GLEASON. We never give up, Mr. Chairman.

APPROPRIATION REQUEST AND FUTURE REQUIREMENTS

Mr. THOMAS. The financial summary includes the following: 55 new projects for which initial funds are requested in 1965, and 328 projects in process, which include only those projects having unobligated balances of 1964 or previous year appropriations on hand.

That is what the $102 million calls for this year, to carry it forward beyond 1965 and then it will be $149,537,000; is that correct?

Mr. GLEASON. Yes, sir.

(NOTE.—The following was subsequently supplied for the record:)

The following additional information regarding the unobligated balances and the funding of projects is supplied for the record:

The construction of hospital and domiciliary facilities appropriation request for fiscal year 1965 is $102 million. This will be added to the estimated unobligated balance of $17.4 million expected to be carried over from fiscal year 1964. The unobligated balance at the end of fiscal year 1965 is anticipated to be approximately $20.1 milion. The effect of the unobligated balances is shown in the following table. The unobligated balances by individual projects carried over from fiscal years 1964 and 1965 are shown in columns 7 and 10, respectively, on pages 26–4 through 26–9.

[In millions]

Item	Fiscal year 1963, actual	Fiscal year 1964, estimate	Fiscal year 1965, estimate
New appropriations	$77.0	$76.8	$102.0
Unobligated balance carried over	67.3	72.6	17.4
Total available for obligation	144.3	149.4	119.4
Less obligations	71.7	132.0	99.3
Unobligated balance	72.6	17.4	20.1

The $102 million requested for fiscal year 1965 will be applied to the 383 projects listed on pages 26–4 through 26–9 as follows:

For 55 new projects listed on page 26–4, $15.5 million is needed to initiate plans and construction. This amount will cover the entire cost of 42 projects at $11,100,000. It will also provide $4.4 million to partly finance the other 13 projects, the total estimated cost of which is $63.9 million; $59.5 million of the $63.9 million will be requested after 1965.

Of the 328 projects in some stage of design or construction shown on pages 26–5 through 26–9, funds are requested in fiscal year 1965 for only 22; $85.9 million of the $86.5 million requested will complete the financing of 21 of the 22 projects for which funds are required during fiscal year 1965. This will bring the total number of inprocess projects completely financed to 312. Of the remaining 16, funds in the amount of $600,000 are requested in this fiscal year and $90.1 million will be required in future appropriations. From a table which

follows, you will recognize that of the 383 projects, only 29 will require funds in future years in the amount of $149.6 million.

Summary of effect of 1965 appropriation

[Costs shown in millions of dollars]

	Number	Total estimated cost	Prior funds	Appropriated, 1965	Future requirement
New projects completely financed	42	11.1	0	11.1	0
New projects requiring funds after 1965	13	63.9	0	4.4	59.5
Subtotal for new projects	55	75.0	0	15.5	59.5
In-process projects completely financed	312	554.6	463.7	85.9	0
In-process projects requiring funds after 1965	16	95.4	4.7	.6	90.1
Subtotal for in-process projects	328	650.0	473.4	86.5	90.1
Total for program	383	725.0	473.4	102.0	149.6

Mr. THOMAS. Before we go to the details and look at your program, let us check this item.

Replacement hospitals, the total estimate is $438,265,000 and the appropriation available through 1964 is $297,255,000. Under new projects you have $1.8 million; projects in process, $68,154,000 and the total is $69,954,000.

Then under modernization, you have $18,301,000 total.

Under other improvements, you have $6,841,000.

Next, we have RO and supply depots, and that is $500,000.

Next, research facilities, $6,414,000.

Let us turn now to new projects.

The estimated cost for replacement hospitals is $22,093,000.

Mr. SHIPLEY. That is for Chicago.

Mr. THOMAS. That is only one. Which one is this?

Mr. GLEASON. This is the South Side Hospital across from the University of Chicago.

Mr. THOMAS. That is the brandnew one you contemplate?

Mr. GLEASON. Yes, sir.

MODERNIZATION—VA HOSPITAL, BATTLE CREEK, MICH.

Mr. THOMAS. The modernization at Battle Creek will be $2 million. You have $153,000 set up for 1965; describe this.

Mr. GLEASON. Lowell, can you?

Mr. SCHWEICKART. That involves the modernization of existing buildings.

Mr. THOMAS. Modernization of building 13 for what, utilities? For $2 million?

Mr. SCHWEICKART. No, sir; modernization of building 13 and utilities in addition to the modernization

MODERNIZATION—VA HOSPITAL, DANVILLE, ILL.

Mr. THOMAS. What is this $5.4 million for Danville, Ill.?

Mr. SCHWEICKART. This is a similar project at Danville which involves construction of a building for physical medicine and rehabilitation and construction of a 240-bed NP building.

Mr. THOMAS. At a cost of $5 million?

Mr. SCHWEICKART. Yes, sir.

Mr. THOMAS. Are these new beds?

Mr. SCHWEICKART. Those are replacement beds, replacing existing buildings.

Mr. THOMAS. Brand new?

Mr. SCHWEICKART. Yes, sir.

Mr. THOMAS. How many square feet in the building? What do you figure this is per bed?

Mr. SCHWEICKART. It runs around $10,000.

Mr. THOMAS. For an NP building?

Mr. SCHWEICKART. Yes, sir.

Mr. THOMAS. You have been using only $20,000 for G. M. & S.?

Mr. GLEASON. No; $25,000 for G. M. & S.

Mr. THOMAS. Are these contractor estimates or in-house?

Mr. MONK. In-house, so far.

Mr. THOMAS. What do you mean by "so far"?

Mr. MONK. We did not have a contract bid on it.

Mr. GLEASON. We cannot put them up for bid until we get approval.

Mr. THOMAS. I understand, but these estimates look a little high, gentlemen.

MODERNIZATION—VA HOSPITAL, MARION, ILL.

For Marion, Ill., modernization, phase one, $3 million total estimated cost. What is the history on this? Modernization of what and how many?

Mr. GLEASON. It is about a 170-bed hospital and we wanted to modernize it, bring it up to about a 200-bed hospital.

Mr. MONK. Mr. Thomas, we have given you a brochure on each one of these projects.

Mr. THOMAS. What we want you to do is to take this table and spell it out.

CONVERSION TO AUTOMATIC ELEVATOR CONTROLS

How many automatic elevator controls do you have? Is this a part of the 328 projects?

Mr. MONK. This is approximately 50 elevators. The 10 projects for automatic elevator controls are listed on page 26–13.

Mr. THOMAS. That is on page 26–4?

Mr. MONK. Approximately 50.

Mr. THOMAS. How many new projects on this page? You break it down into 55 new projects and 328 non——

Mr. MONK. There are 55 on this page. These are the new projects shown on page 26–4.

Mr. THOMAS. These are all new?

Mr. MONK. All brand new; yes, sir.

Mr. THOMAS. Let us take a look at your research facilities; Birmingham, Chicago, Madison, and St. Louis.

RESEARCH ADDITION—VA HOSPITAL, BIRMINGHAM, ALA.

The research facility in Alabama is $1.1 million. What are you getting for your money there?

Mr. MONK. A new research building addition.

Mr. THOMAS. How big is it?

Mr. GLEASON. 31,600 square feet of which 20,000 square feet will be in new construction.

Mr. THOMAS. $1.1 million, but how much is that a square foot?

Mr. GLUCKMAN. That project is phased out at 20,000 square feet in new construction. We were told that this was one where the contractor indicated that would be the price.

Mr. THOMAS. You set out in your prospectus as $31.74 and there is no contractor bid on this either.

Mr. MONK. No, sir.

Mr. THOMAS. Is this going to be one where you will come back under the other appropriation?

Mr. GLEASON. This is just the construction.

Mr. THOMAS. No equipment? There is no equipment in any of these projects?

Mr. MONK. Not portable; no, sir.

Mr. THOMAS. You mean the elevators in here, and so forth?

Mr. MONK. That is right.

Mr. THOMAS. When it comes to portable equipment, none of it is in here?

Mr. MONK. That is back in the research appropriation.

PLANNING AND SITE FUNDS—NEW PROJECTS

Mr. THOMAS. This is just pure construction and the money heretofore appropriated for your plans, specifications, and land covers that.

Mr. GLEASON. That is all out of here.

Mr. THOMAS. No; you have had it heretofore in most of these.

Mr. MONK. No, not in these new projects.

Mr. GLEASON. There is not a thing on this page at all, Mr. Chairman, and you will note on the next page——

Mr. THOMAS. You have sites and planning money on most of these?

Mr. MONK. Not on this page; these are brandnew projects. You asked us last year to split this and give you the brandnew ones.

Mr. THOMAS. No site and planning money?

Mr. GLEASON. No, sir. We have not had a penny on any of these.

Mr. MONK. Some of this is planning money.

Mr. GLEASON. We are going to use this in 1965 but we have not received a penny of it yet.

Mr. THOMAS. On the 55 you have not received a penny?

Mr. GLEASON. That is right.

LAND ACQUISITION FOR CHICAGO HOSPITAL

Mr. THOMAS. What are your sites and planning costs and your real estate costs on the South Side, Chicago, hospital for 860 beds?

Mr. GLEASON. We plan about $3 million.

Mr. THOMAS. For what?

Mr. GLEASON. The acquisition of the property and the plans.

Mr. THOMAS. Acquisition of the land? How much land is involved?

Mr. GLEASON. If we get the land we hope to get, it will be approximately 18 acres.

Mr. THOMAS. $3 million?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. How much is that an acre?

Mr. GLEASON. All of that, of course, would not be for the land because it would have your plans in there. I imagine it would run pretty high; about $200,000 an acre.

Mr. THOMAS. Expensive land; is it not? Where in Chicago is it going to be located?

Mr. GLEASON. We hope right across the street from the University of Chicago Medical School.

Mr. BOLAND. Who owns the land?

Mr. GLEASON. The Chicago Park District.

Mr. THOMAS. Not the university?

Mr. BOLAND. Why do they not give it to you?

Mr. GLEASON. They will not.

Mr. BOLAND. They ought to give it to you for less than that cost. You are putting in a tremendous facility that will benefit the people of Chicago.

Mr. GLEASON. The reason they won't, Mr. Boland, is that we are taking parkland away from the people of Chicago and there is no other land around there for them to replace it with.

Mr. BOLAND. Yes, but we have another program in Housing and Home Finance Administration that creates open parkland and then they will come in here for money under that program, and we will give them money to establish open land in Chicago.

Mr. GLEASON. Not in this particular location, Mr. Boland.

Mr. BOLAND. I know; but in some location they will get it. I think they would be able to negotiate.

Mr. GLEASON. If you are acquainted with the South Side of Chicago, it is a very difficult area to negotiate.

Mr. THOMAS. How many floors will this new hospital at South Side, Illinois, have?

Mr. GLEASON. We do not have any idea yet, Mr. Chairman.

Do you have any preliminary plans?

Mr. SCHWEICKART. We do not have any preliminary plans yet; no, sir.

STANDARDIZED PLANS

Mr. THOMAS. Do you not have some standardized plans on your hospital? You are not going to go out and cover 5 or 6 acres with one building, are you? Do you not have plans like these high-rise buildings where you have most of the facility under one roof? Do you have any standardized plans?

Mr. GLEASON. I do not have any.

Mr. SCHWEICKART. We do not have a standardized plan as such.

Mr. THOMAS. Why?

Mr. SCHWEICKART. We attempt to standardize nursing units to the extent local conditions permit. We repeat such arrangements as we develop new hospitals, but we attempt to improve on them to the extent we can without making radical departures from the established patterns for providing good nursing service. We standardize as is practical but we also try to make improvements as we progress with the program.

LOCATION OF NURSING STATIONS

Mr. THOMAS. I notice in some of the modern private hospitals being constructed the nurses' office is right in the middle of the hall and every room on that floor looks right into that office. That nurse can sit there and see every patient by moving in a circle within a radius of 25 or 30 feet.

Mr. SCHWEICKART. Mr. Thomas, the plans for Jackson, Nashville, Martinez, Cleveland, and Washington hospitals are similar. With respect to the point you are making, the arrangement of the nursing units and the location of the nursing station in relation to the beds, they are similar. In later developments, we are working with an improved nursing unit and in the Temple, Memphis, Long Beach, San Juan, and Hines hospitals, we are using a different plan.

Mr. THOMAS. In talking about G.M. & S. hospitals, I guess the plans for NP might be a little different?

Mr. SCHWEICKART. Yes, sir.

Mr. THOMAS. When you are talking about Temple and other places, you are talking about a different plan and you are referring to an NP hospital?

Mr. SCHWEICKART. No, sir, general medical. I was referring to the general medical portion of Temple as it compares with the general medical hospitals at Memphis, Hines, and the others.

Mr. THOMAS. What is the difference in the plan?

Mr. SCHWEICKART. We have gone from what we formerly had, a double corridor plan with two or three pairs of nursing units on a floor, to a square plan with two nursing units on a floor. The purpose is to shorten the distance of travel for the nurses and others serving the patients in the wards and in the bedrooms.

Mr. THOMAS. That is where the nurse is, out in the circle in the middle of the building and she is able to look into every door?

Mr. MONK. We have in the Memphis hospital planned one intensive care unit in the circle. We had not yet built any of those circular hospitals.

Mr. SCHWEICKART. The square is the closest approach used by the VA in general medical nursing units to this circular plan you have reference to. We are approaching that with the square plan.

CONSTRUCTION COSTS—CHICAGO

Mr. THOMAS. You have here an overall cost of $22 million for this new 760-bed hospital in Chicago. How much did you say it is per bed?

Mr. SCHWEICKART. That would run close to $29,000.

Mr. THOMAS. Per bed?

Mr. SCHWEIKART. Yes, sir.

Mr. THOMAS. You do not have any contractor estimates on that, do you?

Mr. SCHWEICKART. No, sir. May I explain that?

The timing was scheduled for the development of the construction budget and it is such that the budget submissions come ahead of the development of preliminary plans. The estimates are based on the requirements developed by the Department of Medicine and Surgery which provide the gross area to be included in the building. The cost estimates are obtained by multiplying the gross area by the average cost per square foot of new construction accomplished by the Veterans' Administration throughout the country adjusted to the cost in each locality.

Mr. THOMAS. You estimate your cost as $27.55 a square foot and that includes no equipment? By the time you get through equipping your hospitals, what will it cost you per bed?

Mr. SCHWEICKART. The initial portable equipment, I presume you are talking about, adds about $3,600 a bed.

Mr. WISE. About $3,600.

Mr. THOMAS. That makes it a round $33,000 a bed?

Mr. MONK. That is about right for that hospital.

Mr. THOMAS. Pretty high, gentlemen.

Let us look at this facility at Chillicothe, Ohio, medical and surgical and NP hospital.

Let us turn to the justifications right quick on this item.

Mr. GLEASON. That is $100,000.

Mr. MONK. That is to add a medical and surgical service in the NP hospital there at a total cost of $100,000.

MODERNIZATION—VA HOSPITAL, PERRY POINT, MD.

Mr. THOMAS. Let us look at this facility at Perry Point, Md., modernization program, phase 4; what is this?

Mr. SCHWEICKART. This is for the modernization of administration and for foster home building 9–H and 80 and for some air conditioning. This is the fourth phase of a program for modernizing the whole hospital.

Mr. THOMAS. How many beds do you have at Perry Point now?

Mr. MONK. 1,500.

Mr. THOMAS. That is one of your big ones?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Let us take a look at page 26–5. This is still new units and replacements?

Mr. MONK. Yes, sir.

Mr. THOMAS. You have had money on Atlanta?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. What about Charleston?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Brecksville?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. What about Cleveland?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. I notice you are renting outclinic space in Cleveland. You have two brandnew hospitals. How do you account for that?

Mr. SCHWEICKART. The hospital is not yet finished in Cleveland but it will be finished sometime next month.

Mr. BOLAND. Are you going to buy them?

Mr. GLEASON. Yes, sir.

Mr. WISE. The day care will be separate unless it is picked up in the future construction. We had the director in last week and the only option is to knock 40 beds out of service. It is also 29 miles to the supply house.

Mr. THOMAS. Did you plan it that way? You did not intend to combine them?

Mr. WISE. The day care center was not planned until after the hospital was about half through.

Mr. THOMAS. Do you plan to move it out there?

Mr. WISE. Not at this time.

CLEVELAND HOSPITAL

Mr. THOMAS. You have two new ones in Cleveland. What about the one completed? Do you have an outpatient clinic? Where is it with reference to the one completed?

Mr. WISE. The clinic itself, we moved into the new hospital which is being completed this April. The day care center was an afterthought.

Mr. DRIVER. I think the chairman is referring to the Brecksville Hospital already completed.

Mr. WISE. No; we are speaking of the new Cleveland hospital.

Mr. DRIVER. You are going to move that when it is completed. The one completed a few years ago at Brecksville is too far away.

Mr. THOMAS. Not feasible to combine your outpatient clinic and the hospital?

Mr. DRIVER. No, sir; but it will be with the new one.

Mr. THOMAS. Where is the new one located, Brecksville?

Mr. DRIVER. The new one is in downtown Cleveland, across from the medical school.

Mr. GLEASON. Right across the street from the Western Reserve. They have Case Polytechnic School there. It is right across from Western Reserve.

Mr. THOMAS. Where is the new one located?

Mr. GLEASON. This is where the new one is located.

Mr. THOMAS. Where is the old one?

Mr. DRIVER. It is out near the Brecksville Hospital, the Crile location.

Mr. SCHWEICKART. It is south of the city about 15 miles in Parma Heights.

Mr. THOMAS. What is it close to?

Mr. SCHWEICKART. Parma Heights.

The old Crile Hospital is near the airport and that is perhaps what you are thinking of, the wind tunnel and research center.

Mr. THOMAS. Is there not an FAA facility nearby?

Mr. GLEASON. I think you are right, Mr. Chairman. There is an FAA building or space building right near Case.

Mr. THOMAS. I think it is brand new.
Mr. GLEASON. There is a center there.
Mr. THOMAS. That center covers three or four States for the FAA.
Mr. GLEASON. There is a Space Agency building near Case.
Mr. THOMAS. You have "Downey, Ill., NP, phase I," $22,530,000.
Mr. MONK. Plan I is completed. We are asking for $500,000 for phase II for Downey this year.
Mr. THOMAS. Downey is finished?
Mr. MONK. Practically finished.
Mr. GLEASON. Yes, sir; practically speaking.

NEW AND REPLACEMENT HOSPITALS IN PROCESS

Mr. THOMAS. How many of these new and replacement hospitals are you asking money for?
Mr. MONK. Eight.
Mr. THOMAS. What are they?
Mr. SCHWEICKART. Charleston——
Mr. GLEASON. Charleston, Hines, Los Angeles, Memphis, Miami, Oteen, San Juan, and Temple.
Mr. THOMAS. Wait a minute. Let me get column 8 here.
Mr. GLEASON. That is right.
Mr. THOMAS. That is for this year, Charleston?
Mr. GLEASON. Hines and Los Angeles.
Mr. THOMAS. $20 million.
There is a new hospital in Los Angeles for $22.6 million. Are these contractor bids?
Mr. MONK. No, sir.
Mr. GLEASON. Memphis, Tenn.; Miami, Fla.

HINES, ILL., HOSPITAL

Mr. THOMAS. How many bids are you going to have at Hines?
Mr. GLEASON. 1,220 in phase I.
Mr. THOMAS. What is that per bed? Is this the final cost?
Mr. GLEASON. No, sir; this is the first phase of Hines. There will be 1,220 general medical and neurological and later 480 neuropsychiatric.
Mr. THOMAS. How much money?
Mr. MONK. For Hines?
Mr. THOMAS. Yes.
Mr. MONK. $20,310,000.
Mr. THOMAS. The unobligated appropriation is $1.5 million?
Mr. GLEASON. That is right.
Mr. THOMAS. Is this going to be the total cost?
Mr. MONK. $21,310,000 is going to be the total cost of this first phase.
Mr. GLEASON. For 1,200 beds.
Mr. THOMAS. How much a bed?
Mr. SCHWEICKART. $17,000-plus.
Mr. THOMAS. Is this NP?
Mr. GLEASON. General medical.
Mr. MONK. The next phase will be.
Mr. GLEASON. Phase 2 will be NP, 500 beds.

Mr. MONK. Mr. Chairman, we have some facilities we will use at Hines.

Mr. THOMAS. How can you reduce this cost to $17,000 a bed and other costs that come to around $33,000?

Mr. MONK. Mr. Chairman, we had some facilities at Hines that we would use. We have a building that we are going to use for an administration building. The building that we are going to use for recreation will help and we have a building we are going to use for a canteen.

Mr. GLEASON. We have the chapel and we have other facilities.

Mr. SCHWEICKART. Mr. Thomas, I believe there is a mistake in the $33,000. We started with $29,000 and added the cost of the equipment which was said to be $3,500.

Mr. THOMAS. Where is the mistake then, please?

Mr. OSTERTAG. Mr. Chairman, before you leave that?

Mr. THOMAS. Surely.

VA HOSPITAL, BAY PINES, FLA.

Mr. OSTERTAG. I realize this is what you call the fifth increment of your 15-year plan for general modernization under the new and replacement hospital program but you are asking for $68,154,000 for fiscal 1965 and you expect to obligate $61 million; you will have an unobligated balance of $13,175,000 and I cannot help but mention the fact that $1,722,000 is for Bay Pines and that fund remains idle.

Mr. GLEASON. I think it will remain idle, Mr. Ostertag. I think if you will note in the location in column 1, you will see although the Tampa Bay Pines, Fla., area shows an unobligated balance, there may well be a statement in the very near future that will take care of this matter.

Mr. OSTERTAG. I am not going to belabor the point because we have discussed this project on previous hearings and if something develops that clears this unsatisfactory situation, I shall be very happy.

Mr. GLEASON. No one would be happier than myself, Mr. Ostertag.

Mr. THOMAS. What is this table that begins on page 26–10?

This gives the project location and description.

Mr. MONK. This is just a narrative that gives a little more than what is on the table, Mr. Thomas.

ASSISTANT ADMINISTRATOR FOR CONSTRUCTION—PROGRAM 1700

Mr. THOMAS. Gentlemen, let us look at your Program 1700.

We are getting into the administrative costs of the program as well as the medical administration and miscellaneous operating expenses.

How many jobs do we have here? You show 175 for 1963 and 177 for 1964 and 1965.

Are all of these engineers and construction people?

Mr. MONK. Engineers, architects; yes, sir.

Mr. THOMAS. For a total cost of $1,607,000 in 1964?

Mr. MONK. Yes, sir.

Mr. THOMAS. Where is this charged?
Mr. GLEASON. Medical administration.

CONSTRUCTION OF HOSPITAL AND DOMICILIARY FACILITIES APPROPRIATION
PROGRAM 9000

Mr. THOMAS. Your Program 9000 is charged to this account, is it?
Mr. MONK. Yes, sir.
Mr. THOMAS. You have 344 people in 1963, 363 in 1964, and you want to increase it by 6 to take care of the work on the 328 projects?
Mr. MONK. Yes, sir.
Mr. THOMAS. And the progress of the 55 new ones; is that it?
Mr. MONK. Yes, sir.
Mr. THOMAS. For a total cost of $3,843,975.
What is the total cost here for your construction program, $3.8 million for Program 9000 and $1.7 million for Program 1700?
Mr. GLEASON. $5 million.
Mr. THOMAS. Any other costs?
Mr. MONK. We have "Other objects" costs.
Mr. THOMAS. This is nothing but salaries. Any other salary costs?
Mr. MONK. No, sir.

CONSTRUCTION PERSONNEL

Mr. THOMAS. What is the difference in your personnel? Under Program 9000 you have three 15's, a dozen 14's, and so on. What is the difference in personnel?
Mr. SCHWEICKART. There is no difference. The negatives on 26–16 are the pluses on the other sheets, the 9000 appropriation, the following sheet.
Mr. THOMAS. You have three 15's for this year; is that right?
Mr. SCHWEICKART. There are all people who are presently on the payroll.
Mr. THOMAS. You do not have any 16's and 17's, but you did in the 1700 program.
Mr. MONK. Two 16's and one 17.
Mr. THOMAS. Why the difference?
Mr. MONK. On the 1700 program the 17 is the assistant for construction and one of the 16's is Mr. Schweickart, the other is Mr. Hagner. These are all administrative people paid out of this appropriation.
Mr. THOMAS. Is there any reason why you charge both of your top people to 1700 rather than 9000?
Mr. MONK. They could logically be either way.

PROGRAM 9000—OTHER OBJECT COSTS

Mr. THOMAS. You have personnel costs of $3.8 million and $1.7 million, for a total of $5.5 million. Where are your "Other objects"?
Mr. SCHWEICKART. 26–18.
Mr. THOMAS. We will put that in the record.

(Page 26–18 follows:)

CONSTRUCTION OF HOSPITAL AND DOMICILIARY FACILITIES APPROPRIATION—PROGRAM 9000

Comparative summary of requirements by object

	Fiscal year, 1963 actual	Fiscal year, 1964 estimated	Fiscal year, 1965 estimated	Increase (+) or decrease (−), 1965 over 1964
Average employment	374	398	407	+9
VA employees	299	323	332	+9
Hired labor	75	75	75	
11 Personnel compensation	$3,132,501	$3,463,850	$3,605,340	$+141,490
Permanent positions	(2,481,187)	(2,808,850)	(2,952,840)	(+143,990)
Positions other than permanent	(651,314)	(655,000)	(652,500)	(−2,500)
12 Personnel benefits	197,184	228,385	238,635	+10,250
Total, personnel compensation and benefits	3,329,685	3,692,235	3,843,975	+151,740
21 Travel and transportation of persons	109,610	120,000	120,000	
22 Transportation of things	1,926	2,000	2,000	
23 Rent, communication, and utilities	18,734	19,000	19,000	
24 Printing and reproduction	6,734	7,000	7,000	
25 Other services	5,057,496	5,000,000	5,000,000	
26 Supplies and materials	324,410	500,000	500,000	
31 Equipment	2,916,582	6,300,000	3,550,000	−2,750,000
32 Land and structures	56,592,840	63,144,465	75,569,425	+12,424,960
Total Veterans' Administration	68,358,017	78,784,700	88,611,400	+9,826,700
Allocation to OCE	136,372	2,361,300	2,309,600	−51,70
Program costs	68,494,389	81,146,000	90,921,000	+9,775,000
Change in selected resources	+3,187,891	+50,812,178	+8,377,000	−42,435,178
Total obligations	71,682,280	131,958,178	99,298,000	−32,660,178
Unobligated balance brought forward	−67,271,458	−72,589,178	−17,427,000	+55,162,178
Unobligated balance carried forward	72,589,178	17,427,000	20,129,000	+2,702,000
Appropriation	77,000,000	76,796,000	102,000,000	+25,204,000

Mr. SCHWEICKART. That is 9,000 and 1,700 is on 19.

Mr. GLEASON. Which is first?

Mr. SCHWEICKART. 9,000 is first.

Mr. THOMAS. "Travel and transportation of persons," $120,000 last year and this year. What is this $109,600 for transportation of persons in 1963?

Mr. MONK. The $109,600 for 1963 was the total expense for travel. This is primarily for resident engineers to move back and forth to jobs.

Mr. THOMAS. How many automobiles are assigned to this group?

Mr. MONK. They do not have any.

Mr. THOMAS. Where do they travel to and from?

Mr. MONK. Wherever the jobs are.

Mr. THOMAS. From Washington?

Mr. MONK. Most of them we move from one job to another. As they complete one job, we move them over to some other job. Very little out of Washington.

Mr. THOMAS. Very little. "Rent, communications, and utilities," what does this $19,000 cover?

Mr. SCHWEICKART. These are costs of the operation of the offices on the projects, resident engineer's office, telephone, electricity.

Mr. THOMAS. What is the type of office on the project, like you see on wheels at construction sites all over the country?

Mr. MONK. Just a construction shack.

Mr. THOMAS. Not on wheels?

Mr. MONK. No, sir. If we condemn property, sometimes there is a house or building on the property that we can use.

ARCHITECTURAL AND ENGINEERING FUNDS

Mr. THOMAS. What is this $5 million for other services?

Mr. SCHWEICKART. Those are the fees for the architects and engineers for the plans and specifications and working drawings.

Mr. THOMAS. What is your fee?

Mr. SCHWEICKART. On an average, it has run 4.45 percent over a 10-year period for contracts for $375 million worth of construction contracts.

Mr. THOMAS. What is your statutory limitation?

Mr. SCHWEICKART. We have none.

Mr. THOMAS. You have none?

Mr. SCHWEICKART. No, sir.

Mr. THOMAS. You have authority to pay anything you want to?

Mr. SCHWEICKART. Yes, sir.

Mr. THOMAS. Did you not pay some at 6, 6½, and 7 percent?

Mr. SCHWEICKART. There are projects that require that, depending on the types, but the large ones run less, some 3 and a fraction percent.

Mr. THOMAS. It looks like the larger the project the smaller the fee. Why reverse it?

Mr. GLEASON. A smaller percentage.

Mr. THOMAS. Did someone say 7 percent on your large projects? Did I misunderstand?

Mr. SCHWEICKART. I am afraid so, sir. For the large projects and as new hospitals, the percentage will be under 4 percent. It will be 3 and a fraction percent in most cases.

Mr. THOMAS. I thought someone said on the large projects it would be 6 and 7 percent. What is it in the smaller projects?

Mr. SCHWEICKART. It may run as high as 6 percent. In some cases it may run larger than that where you have a complicated mechanical and electrical installation.

Mr. THOMAS. What is your rule and regulation about these outside architects? Do you go to the local area?

Mr. SCHWEICKART. Yes, these are generally architects from the localities. First consideration is given to architects in the immediate vicinity of the project.

EQUIPMENT

Mr. THOMAS. What is this equipment, $3.5 million in 1965 against $6.3 million last year, a reduction?

Mr. SCHWEICKART. This would be equipment for the construction projects.

Mr. MONK. The $3,350,000.

Mr. SCHWEICKART. That would be the initial portable equipment.

Mr. THOMAS. For what?

Mr. SCHWEICKART. For the new projects.

Mr. THOMAS. I thought we charged that under——

Mr. MONK. We are in the process of switching it over.

Mr. THOMAS. Which way are you switching it?

Mr. SCHWEICKART. We are not asking for money in this appropriation for any initial portable equipment under this object.

Mr. THOMAS. What is it doing here?

Mr. SCHWEICKART. This is money we already have from previous appropriations for that purpose.

Mr. SHYTLE. We are in the process of shifting over this initial equipment.

Mr. THOMAS. Are you getting double money?

Mr. SHYTLE. No, we have not had double money.

Mr. THOMAS. You have been getting money for these many years.

Mr. GLEASON. No, sir.

Mr. SHYTLE. We had an accounting problem and to keep it straight now we work with the Bureau of the Budget in making a clean separation on initial portable equipment that we can handle. We will have a set procedure.

Mr. THOMAS. You either do not need this money or else you do not need that one over there under "Inpatient care."

Mr. SHYTLE. We need both.

Mr. MONK. I can clear it up.

Mr. THOMAS. They are both for the same proposition.

Mr. MONK. This money here is for fixed equipment in the hospitals. The initial portable equipment we now pay out of the "Medical care" appropriation.

Mr. THOMAS. This is for your elevators?

Mr. MONK. Elevators——

Mr. WISE. Fixtures.

Mr. BOLAND. What do you mean by initial portable equipment?

Mr. MONK. Anything that can be picked up and moved around, desks, beds——

Mr. WISE. Typewriters.

Mr. BOLAND. This is new equipment for a building that is new?

Mr. GLEASON. A new hospital.

Mr. WISE. This is mainly installed equipment like laundry equipment, built-in dietetic equipment, walk-in refrigerator, an integral part of the building.

Mr. BOLAND. That about wraps it up.

Mr. THOMAS. Mr. Boland, did our distinguished friend include the cost of these beds and everything in that square footage cost?

Mr. BOLAND. He did when he got up to $33,000 a bed.

Mr. THOMAS. That is just portable equipment. Here is another few million dollars for stationary equipment.

Mr. MONK. That was included in the total.

Mr. GLEASON. I do not think the $33,000.

Mr. THOMAS. I will not take time to cross-examine you because you may have to add another thousand dollars per bed.

On "Other services,'" what did we say that was?

Mr. GLEASON. Architects and engineers.

Mr. THOMAS. That equipment is stationary equipment?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. What is "Land and structures"?

Mr. GLEASON. Building and site.

Mr. THOMAS. That is the main thing?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. This is your wrap-up cost. Put page 26–19 in the record.

(The page follows:)

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES APPROPRIATION

Comparative summary of requirements by object

		Fiscal year 1963 actual	Fiscal year 1964 estimated	Fiscal year 1965 estimated	Increase (+) or decrease (−), 1965 over 1964
Average employment		162	165	167	+2
11	Personnel compensation	$1,401,848	$1,497,000	$1,584,100	+$87,100
12	Personnel benefits	105,796	110,000	117,900	+7,900
	Total personnel compensation and benefits	1,507,644	1,607,000	1,702,000	+95,000
21	Travel and transportation of persons	33,243	35,000	35,000	
22	Transportation of things	4,581	3,000	3,000	
23	Rent, communications, and utilities	15,363	15,000	15,000	
24	Printing and reproduction	19,293	20,000	20,000	
25	Other services	65,581	[1] 150,282	108,000	−42,282
26	Supplies and materials	16,469	20,000	20,000	
31	Equipment	23,899	5,000	5,000	
	Total cost	1,686,073	1,855,282	1,908,000	+52,718
	Change in selected resources	15,644	−55,282		+55,282
	Total obligations	1,701,717	1,800,000	1,908,000	+108,000

[1] Includes $55,282 for obligations incurred in fiscal year 1963.

Mr. THOMAS. This is the 1700 program. We have already gone over this in some detail. Look at personnel. Off the record.

(Discussion held off the record.)

JUSTIFICATION MATERIAL

Mr. THOMAS. We shall put pages 26–22 and 26–23 in the record.

(The pages follow:)

ASSISTANT ADMINISTRATOR FOR CONSTRUCTION

GENERAL INFORMATION

Mission

The Assistant Administrator for Construction directs the Veterans' Administration construction program which is based on requirements determined by the operating departments. He has three major areas of responsibility: (1) Design and construction of Veterans' Administration hospitals, domiciliaries and other facilities, including modernization and improvement of existing plant; (2) acquisition, utilization, and disposition of VA real property; and (3) safety of VA patients, the public, and VA employees; and protection of VA property from fire.

Highlights

The 1965 request of $102 million for the "Construction of hospital and domiciliary facilities" appropriation represents the fifth annual increment of a 15-year program of modernization and replacement of VA hospital and domiciliary facilities. This request is a substantial increase over the $75 to $77 million funding level for 1961–64.

By June 30, 1964, the unobligated balance of the "Construction of hospital and domiciliary facilities" appropriation is expected to drop below $18 million. This will be the lowest balance to be carried over since 1945.

The dollar value of "design completed" and "construction put-in-place" in 1963 is the highest of any year during the 10-year period 1954–1963.

Construction completed—Replacement and new hospitals

1963 actual		1964 schedule		1965 schedule	
Location	Beds	Location	Beds	Location	Beds
Martinez, Calif.	500	Cleveland, Ohio	800	Washington, D.C.	7
Nashville, Tenn.	500			Wood, Wis.	1,2
Total beds	1,000		800		1,974

Designed completed and construction awarded—Replacement hospitals

1963 actual		1964 schedule		1965 schedule	
Location	Beds	Location	Beds	Location	Beds
Atlanta, Ga.	587	Gainesville, Fla.	480	Hines, Ill.	1,220
Charleston, S.C.	500	Long Beach, Calif.	1,160	Los Angeles, Calif.	1,040
East Orange, N.J.[1]	200	Memphis, Tenn.	1,000	San Juan, P.R.	720
		Miami, Fla.	1,068		
		Oteen, N.C.	500		
		Temple, Tex.	480		
Total beds	1,287		4,688		2,980

[1] All facilities above are general hospitals, except East Orange which is a restoration center.

OPERATIONS AND FINANCING

The mission of the construction program is accomplished by VA architects and engineers who (1) develop preliminary drawings, technical data, and cost estimates for budget submissions; (2) award and administer contracts with, and review work of, architect-engineer firms which are employed to prepare working drawings and specifications for about 85 percent of the program; (3) prepare working drawings and specifications for about 15 percent of the program; (4) supervise construction at the jobsite with technical assistance provided by the architect-engineers as required.

The costs of the Office of Assistant Administrator for Construction are paid from two appropriations: Medical administration and miscellaneous operating expenses (Program 1700); and construction of hospital and domiciliary facilities (Program 9000).

The medical administration and miscellaneous operating expenses appropriation provides for the salaries of architects, engineers and others who are engaged in preliminary development of projects and programs to be included in requests for appropriation of funds and other budgetary actions, and for those persons who perform real estate, safety and fire protection, and other organizationwide or staff activities. The medical administration and miscellaneous operating expenses appropriation request for 1965, shown in section 19, includes $1,908,000 for these activities. Summary of requirements and other details are included herein to facilitate review and evaluation.

The construction of hospital and domiciliary facilities appropriation, which becomes available for use after Presidential approval, provides for planning, building sites, working drawings, construction, and personnel services applicable to approved projects.

Mr. THOMAS. We thank you gentlemen very much. We enjoy working with you. Come back and see us.

MONDAY, FEBRUARY 17, 1964.

SECURITIES AND EXCHANGE COMMISSION

WITNESSES

WILLIAM L. CARY, CHAIRMAN
BYRON D. WOODSIDE, COMMISSIONER
MANUEL F. COHEN, COMMISSIONER
PHILIP A. LOOMIS, JR., GENERAL COUNSEL
WALTER WERNER, DIRECTOR, OFFICE OF PROGRAM PLANNING
ALLAN F. CONWILL, DIRECTOR, DIVISION OF CORPORATE REGULATION
GORDON D. HENDERSON, ASSOCIATE DIRECTOR, DIVISION OF CORPORATE REGULATION
RALPH S. SAUL, DIRECTOR, DIVISION OF TRADING AND MARKETS
EDMUND H. WORTHY, DIRECTOR, DIVISION OF CORPORATION FINANCE
ARTHUR FLEISCHER, JR., EXECUTIVE ASSISTANT TO THE CHAIRMAN
LLEWELLYN P. YOUNG, REGIONAL ADMINISTRATOR, NEW YORK OFFICE
O. H. ALLRED, REGIONAL ADMINISTRATOR, FORT WORTH OFFICE
ALEXANDER J. BROWN, JR., REGIONAL ADMINISTRATOR, WASHINGTON, D.C., OFFICE
WILLIAM E. BECKER, MANAGEMENT ANALYST
FRANK J. DONATY, COMPTROLLER

SALARIES AND EXPENSES

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Full disclosure provisions	3,472	3,490	3,595
2. Prevention and suppression of fraud	5,158	5,473	6,032
3. Supervision and regulation of securities markets	301	385	452
4. Regulation of investment and public utility holding companies	947	1,252	1,556
5. Corporate reorganizations	357	439	451
6. Operational and business statistics	308	428	474
7. Executive and staff functions	1,200	1,447	1,532
8. Administrative services	966	1,019	1,133
9. Special study and investigation of national securities exchanges and national securities associations	537	----------	----------
Total program costs funded [1]	13,246	13,933	15,225
Change in selected resources [2]	−40	----------	----------
Total obligations	13,206	13,933	15,225
Financing: Unobligated balance lapsing	13	----------	----------
New obligational authority	13,219	13,933	15,225

See footnotes at end of table, p. 605a.

Program and financing—Continued

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
New obligational authority:			
Appropriation	13,262	13,938	15,225
Transferred to "Operating expenses, Public Buildings Service," General Services Administration (76 Stat. 728 and 77 Stat. 436)	−43	−5	
Appropriation (adjusted)	13,219	13,933	15,225

[1] Includes capital outlay as follows: 1963, $116,000; 1964, $22,000; 1965, $33,000.

[2] Selected resources as of June 30 are as follows:

	1962	1963	1964	1965
Stores	11	10	10	10
Unpaid undelivered orders	114	75	75	75
Total selected resources	125	85	85	85

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	10,939	11,585	12,552
	Positions other than permanent	117	50	65
	Other personnel compensation	89	128	83
	Total personnel compensation	11,145	11,763	12,700
12	Personnel benefits	734	800	872
21	Travel and transportation of persons	494	570	618
22	Transportation of things	11	12	12
23	Rent, communications, and utilities	361	385	575
24	Printing and reproduction	48	51	64
25	Other services	174	205	220
26	Supplies and materials	163	125	131
31	Equipment	116	22	33
	Total costs	13,246	13,933	15,225
	Change in selected resources	−40		
	Total obligations	13,206	13,933	15,225

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	1,481	1,468	1,528
Full-time equivalent of other positions	19	10	13
Average number of all employees	1,378	1,387	1,450
Employees in permanent positions, end of year	1,343	1,450	1,513
Employees in other positions, end of year	45	18	18
Average GS grade	9.0	9.2	9.2
Average GS salary	$8,078	$8,695	$8,812

Mr. THOMAS. Gentlemen, we have with us this morning many of our distinguished friends from the Securities and Exchange Commission.

It is good to have Mr. William L. Cary, the Chairman of the Commission, Commissioner Woodside, and Commissioner Cohen.

Are we absent one Commissioner?

Mr. CARY. Yes, sir. Mr. Whitney is not here, sir.

(Discussion held off the record.)

Mr. THOMAS. How long has he been on the Commission?

Mr. CARY. He has been working very hard, sir. He has been with the Commission slightly over 2 years.

Mr. THOMAS. We have your General Counsel, Judge Loomis; Mr. Werner, Director, Office of Program Planning; Mr. Conwill, Director, Division of Corporation Regulation; Mr. Henderson, Associate Director, Division of Corporation Regulation; Mr. Saul, Director, Division of Trading and Markets; Mr. Worthy, Director, Division of Corporation Finance; Mr. Fleischer, executive assistant to the Chairman; Mr. Young, regional administrator in the New York office.

You are always busy there and you have a great office.

We have Judge Allred from Fort Worth. We have Mr. Brown, regional administrator, Washington, D.C. It is good to have you with us, Mr. Brown. We have Mr. Becker, management analyst; and we have Mr. Donaty, the comptroller, well and favorably known.

Do you have a statement for us, Mr. Chairman? If you do, we are delighted and honored to have all of you. We always look forward to working with this distinguished group. I think you all do a fine and capable job. I am delighted to see you bring in some of your distinguished managers from your regional office. We hope you keep up the practice.

Mr. CARY. Well, sir, we try to bring in a certain number each year. I think Judge Allred had not been here for a few years. Mr. Young, the head of the New York regional office, has never been before you at a hearing.

Mr. THOMAS. I think I have been to his office, though.

Mr. CARY. I think you have, sir.

Mr. Brown has recently been made head of the Washington regional office after a long career in the Government.

GENERAL STATEMENT

As you have indicated, sir, the total amount of our request for next year is $15,225,000——

Mr. THOMAS. I didn't indicate it. I was afraid to mention that big figure.

Mr. CARY. You did it in the number of positions—an increase of $1,287,500 over our appropriation of $13,937,500 for this fiscal year. This increase of $1,287,500 represents $385,000 for those 60 additional positions; $290,000 for the pay increases; $262,500 for within-grade increases; and $350,000 for other expenses, which includes the cost of additional space we need plus the first step in the renting of a computer.

Of those 60 positions you mentioned, 47 will be——

Mr. THOMAS. You say $290,000 is for the 2½ percent pay increase and $262,500 for within-grades?

As I said, of those 60 positions, 47 will be assigned to our regional offices. I will cover in addition, as my statement indicates, the registration statement activity and where we are in that process, our space deficiency, and so on.

Mr. THOMAS. All of your tables are in the justifications. The summary does it in six or seven pages and tells the tale. If your statement is any better we will put them both in the record.

INVESTMENT COMPANIES

Mr. CARY. Turning to the 21 persons for which we are asking in the field for the inspection of investment companies, we need these positions to achieve a 2-year inspection cycle of investment companies which would involve the inspection of about 325 companies in 1965.

Mr. THOMAS. What is the definition of an investment company? How is it organized? How does it get its funds? What does it do with them?

Mr. CARY. Investment companies, sir——

Mr. THOMAS. First the definition from the act. Is this the act of 1934 or 1940?

Mr. CARY. This is the act of 1940, sir.

Mr. THOMAS. Let us read into the record what the act states and then you may explain it.

Mr. CARY (reading):

> Investment company means any issuer which: (1) is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, or trading in securities; (2) is engaged or proposes to engage in the business of issuing face-amount certificates of the installment type, or has been engaged in such business and has any such certificate outstanding; or (3) is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities, and owns or proposes to acquire investment securities having a value exceeding 40 percent of the value of such issuers' total assets (exclusive of Government securities and cash items) on an unconsolidated basis.

Mr. THOMAS. What does that limitation amount to?

Mr. CARY. Is this the last limitation to which you refer, sir?

Mr. THOMAS. 40 percent.

Mr. CARY. This would be a case in which a company is engaged in an actual industrial pursuit of one type or another. It is an industrial company and holds, also, investment securities. It is this percentage limitation which makes it tip the scale into being an investment company as well as an industrial concern.

Mr. THOMAS. Something like Du Pont. They own x thousands of shares of General Motors. Its main business is in the chemical business but they have $1 billion worth of General Motors stock.

Mr. CARY. That is correct, sir. Perhaps even a better example is the M. A. Hanna Co. which for years controlled and operated many industrial enterprises. When they ceased participating in the operations and assumed an investment posture they became a registered investment company.

Mr. THOMAS. They are in Cleveland?

Mr. CARY. Yes.

Mr. THOMAS. We have heard about it. The former Secretary of the Treasury who has done a lot of business with the Federal Government.

Mr. CARY. It has been somewhat in the public eye in the last few years.

Mr. THOMAS. And in this committee about 8 or 9 years.

Mr. CARY. That is correct, sir.

Mr. THOMAS. Go ahead.

Mr. CARY. I don't know whether you want me to elaborate from that, Mr. Chairman.

Mr. THOMAS. Just what is an investment company? Are all these people who have seats on the New York Stock Exchange and the other exchanges investment companies?

Mr. CARY. No, sir. By and large investment companies are persons, companies, or trusts which hold——

Mr. THOMAS. The definition seems to put them right in the middle of it, a man who deals in stocks.

Mr. CARY. It holds itself out as being engaged primarily in the business of investing. You are asking me why a broker is not an investment company. The reason why, for example, a broker-dealer is not an investment company is because there is a specific exemption under section 3(c)2. Is that correct, Mr. Conwill?

Mr. CONWILL. That is right.

Mr. CARY. We are primarily speaking about a so-called mutual fund which is an open-end investment company issuing shares and receiving money which it in turn invests in securities. That is primarily the role and the function to which we are addressing ourselves.

EXEMPTION OF BROKERAGE-DEALERS FROM INVESTMENT COMPANY ACT

Mr. EVINS. The statute specifically exempts broker-dealers?
Mr. CARY. That is correct.
Mr. THOMAS. Read that section of the act which exempts them.
Mr. CARY. Section 3(c) states:

Notwithstanding subsections (a) and (b) none of the following persons is an investment company within the meaning of this title—

and then I go down to subsection 2:

Any person primarily engaged in the business of underwriting and distributing securities issued by other persons, selling securities to customers, and acting as broker—

Mr. THOMAS. Is that part of the original act of 1940 or an amendment to it?
Mr. CARY. It is part of the original act, sir.
Mr. THOMAS. Go ahead. That is clear enough.
Mr. CARY (continuing):

Selling securities to customers and acting as broker—

and so on.

FUNCTIONS OF AN INVESTMENT COMPANY

Mr. THOMAS. Explain the function of an investment company. Where do they get the funds and what do they do with them?
Mr. CARY. The principal investment companies with which we are dealing are open-end investment companies, so-called mutual funds. They are continuously issuing shares, obtaining funds, and in turn investing those in securities of other companies. That is really the type of company represented here.

CAPITAL REQUIREMENT OF INVESTMENT COMPANIES

Mr. THOMAS. Where do they get the original nest egg with which to buy shares against which they issue stocks? Do they issue stocks and then buy the shares? How do they get into business, in other words?
Mr. CARY. I will ask Mr. Conwill to speak to this generally. I will start off by saying that, as I recall, the statute requires a minimum capital on their part of roughly $100,000.
Mr. CONWILL. Yes, sir.
Mr. CARY. After the promoter, the persons sponsoring it, put that in, then from then on——
Mr. THOMAS. The only requirement of the law is that he have $100,000. How much can he buy against that? How much can he sell against it?
Mr. CAREY. Unlimited amounts because of the fact that, as the amount of funds taken in increases, these additional funds are invested in securities.
Mr. THOMAS. Where does the Securities and Exchange Commission come into play?

REASONS FOR INVESTMENT COMPANY ACT OF 1940

Mr. CARY. The Securities and Exchange Commission comes in because historically the mutual funds and the investment companies generally represented a major area in which there were abuses.

Mr. THOMAS. Don't you have a better answer than that? If the law requires they have only $100,000 and they can issue stock to an unlimited amount against that $100,000, and therefore somebody had better take a look into it. Is that correct?

Mr. CARY. That is correct, sir.

Mr. THOMAS. Is that really the basis of your jurisdiction and need?

Mr. CARY. The reason why the Investment Company Act of 1940 was enacted was because there were so many abuses in terms of the types of investments that were made that they began to have heavy capitalization of debt, and so forth, so these represented thin equities. And regulatory protection was needed for investors to protect them against the temptation which might occur in managers of highly liquid pools of other people's money.

Mr. THOMAS. At the time that act was passed the number and the dollar value of their assets was quite small?

Mr. CARY. Infinitely so. As I recall it is was somewhere in the neighborhood of $3 billion.

Mr. CONWILL. Less than that. The open-end companies had total assets at that time of $475 million. They are now well over $25 billion. If you consider open-end companies and closed-end companies they would amount to approximately $35 billion with roughly 6 million shareholder accounts.

Mr. THOMAS. Did most of them start issuing stock right off the bat, selling stock against small capitalization?

Mr. CARY. They have. That is the way they started.

Mr. THOMAS. What is the history of them? How many of them issued stock in the same amount or approximately the same amount as the original capitalization?

The studies show all this. You have all this information. Your study of a year or a year and a half ago showed all that.

Mr. CARY. That is right. We are continuing that.

Mr. Conwill and Mr. Henderson are engaged in this entire study. The reason the investment companies have grown is that the public has been anxious to buy these shares representing other companies, and as values have risen it has made it more attractive for people to buy. The shares are also aggressively sold. The records of the investment companies have not been generally favorable during the period of rising markets, and as a consequence it has been a major medium of investment.

OUTLOOK FOR INVESTMENT COMPANIES

Mr. THOMAS. You have two are three good points there. Inflation certainly is at a standstill. What is the history of the investment company as of today? What is their outlook as of today?

Mr. CARY. I don't know about that. The rate of increase certainly has dropped in the past year or so but I would say the amount of sales substantially exceeds redemptions still.

Mr. CONWILL. By over $1 billion last year.

Mr. THOMAS. What dividends are they paying?

Mr. CONWILL. You will find the more conservative mutual funds are called balanced funds. Their dividends run approximately 3 percent, I would say, on an income basis, and they also distribute capital gains which oftentimes will run another 3 percent. There are approximately 6 percent in distributions, although only half of that is attributable to income.

Mr. THOMAS. What is the value of the other part, the 50 percent paper stock, and what is the value of it actually? If not based on income what value does it have?

Mr. CONWILL. Valuation is made on a market basis, Mr. Chairman.

Mr. CARY. Underlying securities are valued every day.

Mr. CONWILL. Twice a day oftentimes.

Mr. THOMAS. You have an incline in the market, then, which looks good. When the bottom falls out temporarily and the Dow-Jones average drops off considerably, then where does the owner of the stock set?

Mr. CONWILL. You will find if the Dow-Jones takes a rapid descent most of the mutual funds values also will take a rapid descent.

If I may add one thing on the $100,000 minimum capital requirement just as a matter of interest, there was considerable congressional objection to that $100,000 limitation. There were Congressmen who thought it should be considerably less, particularly the Congressman from Oklahoma who urged that the limit be $10,000.

Mr. THOMAS. What is the attractive part of it? What makes it so attractive?

Mr. CONWILL. It is an opportunity to participate in the market on a diversified basis and it appeals to individuals who do not have a lot of money to invest so that they can take, say, $5,000 and buy mutual fund shares which may give them an interest in 100 different securities.

Mr. THOMAS. What is the difference from going into a stock broker and saying "I have $5,000. I will buy 10 shares of 10 different companies." You can do that. You pay a slight premium, 5 percent more.

Mr. CARY. Most people would not buy in that small a lot across the board in that way.

Mr. THOMAS. It is perfectly possible, though, is it not?

Mr. CARY. That is correct.

Mr. THOMAS. And you stand a better chance of making more money than in the open-end fund account.

Mr. CARY. Depending on the securities you buy in your own diversification program.

Mr. THOMAS. That applies to the fund, too, does it not?

Mr. CARY. That is right. We are trying to convey if we can the reason why they are sold or how they are sold, why the public likes to buy them.

Mr. THOMAS. That is all we are doing. We are trying to find out the advantages and disadvantages from a group of experts.

Mr. CARY. We also might indicate why they are sold so vigorously and why they are bought. That is another factor in the picture. Of course, the sponsor is very frequently tied in with the investment adviser who is an outside person whose income depends on the amount

of the total fund. Generally up to this time, although there have been changes recently, the investment advisers, the persons who decide what the portfolio of the investment company shall be, receive a fee, which is usually one-half of 1 percent.

Mr. THOMAS. Pretty good fee; is it not?

Mr. CARY. It does amount to a very substantial amount, particularly when you get into the major investment companies.

Mr. THOMAS. They are persons close to the organization who organize the fund.

Mr. CARY. Mr. Chairman, in most cases that is the case.

Mr. THOMAS. You call that a sort of brother-in-law deal?

Mr. CARY. It all depends on the type of in-law. I think the relationship is definitely there.

Mr. THOMAS. Go ahead.

INVESTMENT COMPANY INSPECTIONS

Mr. CARY. Going on, sir, I was going to point out that really we had had a very limited number of inspections of these companies until the last 3 years.

Mr. THOMAS. How many people do you have working on them now?

Mr. CARY. At the moment, we have 17 in the field and 8 in Washington who are inspectors. That is 25 in all.

Mr. THOMAS. What do those in Washington do?

Mr. CARY. There is the important role of supervision of the people in the field.

Mr. THOMAS. It doesn't take 8 to supervise 17. You have 8 chiefs and 17 Indians.

Mr. CONWILL. In the first place, in Washington we schedule them, plan the program, and since the idea originated here we have been responsible for the training. In this past year, we have conducted training sessions in four different regional offices.

Mr. THOMAS. What difference does it make where the idea originated? The idea originated in Congress before any of you were here. You are fencing a little there, Judge.

Mr. CONWILL. It was developed here, and the people who to date are the most experienced inspectors are here in Washington, and they go out and assist the regional offices with the inspection program.

Mr. THOMAS. I wonder if the distinguished people who run the field offices would agree with that.

Mr. CARY. I was in Atlanta a year ago when we were starting our investment company inspection program down there, and I remember distinctly having one of the men come from Washington. They really had never done that kind of inspection work before. He was able to participate in the training of a person in the Atlanta regional office to do that very job.

Mr. THOMAS. I imagine that is true. You have been inspecting them now 3 years and everybody knows what it is all about. You had better put about five of these eight in the field, though; had you not? That would give you 22 Indians and 3 chiefs.

Mr. CARY. In the first place, all the investment companies have never been inspected. In other words, we have never gotten over a full cycle.

NUMBER OF INVESTMENT COMPANY INSPECTIONS

Mr. EVINS. How many have never been inspected?

Mr. CONWILL. Approximately 400 have not been inspected. We have 721——

Mr. EVINS. How many have been inspected in the last 3 years?

Mr. CONWILL. As of today it would run about 190.

Mr. CARY. We are beginning to step up this program. We think it is one of the most important programs we have accelerated in the last last 3 years.

VIOLATIONS UNCOVERED THROUGH INSPECTIONS OF INVESTMENT COMPANIES

Mr. EVINS. Have you any results you can show us? Spell out the accomplishments.

Mr. CARY. For the 18-month period ending last December 31, we have had 132 inspections for which 50 investigations relating to serious violations were instituted. During this same period, there was restitution of over $800,000 which was returned to either the investment company, resulting in a greater equity for the shareholders, or directly returned to individuals through mandatory rescission of their stock purchases.

Furthermore, to give you some examples of the kinds of irregularities involved, there was a negligent performance by a fund custodian, also, improper certification by an independent accountant of a fund, directors being indifferent to their fiduciary responsibilities, and unlawful transactions between a fund and its affiliates.

Because of the close relationships and contractual arrangements between the fund and other persons, negligent and fraudulent activities can result. Their operation must be carefully supervised and effective regulatory oversight can be done well only through a continuous inspection program.

I think this has yielded very favorable results and I would emphasize it as our first priority.

Mr. WYMAN. $800,000 of restitutions in terms of the hundreds of millions that you regulate is not very much money; is it?

Mr. CARY. Not in dollar terms. It has an important element of principle about it. When it gets around that we are beginning to look over the shoulders of these investment companies, and are carefully examining them, you would be surprised how the procedures and how the practices move up, too.

Some of them were relatively small investment companies which were just getting going. Happily we nipped the problem in the bud.

Mr. Conwill, for example, can give you one recent example, perhaps the most horrible one, which I think we have made a substantial contribution on by preventing more shareholders from actually being taken advantage of and losing all their funds.

Mr. WYMAN. I didn't want to interrupt your response to Mr. Evins. I will cover that later.

Mr. EVINS. You say that the funds are returned to the investment companies because of some improper or illegal act by some employee. Is that correct?

Mr. CARY. Frequently an employee, or actually it may be the person with whom they have a contract.

Mr. EVINS. Do you follow up to see whether the company has taken action with respect to the employee?

Mr. CARY. Yes, sir. Mr. Conwill can give you some chapter and verse examples of this.

Mr. EVINS. Is the employee retained or promoted?

Mr. CONWILL. In two instances, sir, actually three instances, we have caused the removal of the entire boards of directors of the funds involved and have obtained their undertaking to stay out of the investment company business for at least 5 years so that we have reconstituted the entire fund and caused an entirely new slate of directors and personnel to go in and attempt to revitalize the operation and correct it.

DELAY OF ACTION WITH RESPECT TO INVESTMENT COMPANIES

Mr. THOMAS. You are being criticized to some extent now by certain quarters. Whether or not it is justified I do not know. Certainly as a result of your studies the report you issued 6 to 8 months ago was well treated. It did not create any panics nor any sizable repercussions. Good judgment was used.

Are you planning some new regulations on these investment funds? If so, what has been the reason for the delay in not coming forward with them? The financial community is getting a little worried about it, wants to know what is happening. Will you address yourself to that a moment?

Mr. CARY. Yes, sir. I can understand they would like us to come forward with any recommendations which we are proposing to make. This area, by the way, poses some very complicated legal and financial problems on which any answer is difficult to reach. As a consequence, I am sure the financial community would rather have us approach this matter in a very practical and in a very conservative way rather than coming out with a conclusion of which we are not convinced.

There are areas on which we have focused. For instance, there is a special study focused on the so-called contractual plan way of selling securities.

Mr. THOMAS. What do you mean by that?

Mr. CARY. That is a way pursuant to which a sale is made of a plan to buy, let us say, a block of stock of an investment company over a period of time with the first payment going in large part; that is, 50 percent of it in many cases, going to pay the salesman who made the sale.

For example, if that contractual plan was not carried out, a person at the end of the first year who had thought he might have invested in investment company shares will find that 50 percent of the funds he put in were in terms of a commission and he gets only 50 percent of his money back. That poses a problem.

The sale of contractual plans and the so-called front-end load with that 50-percent commission is one of the things which the special study reflected upon.

As to whether changes should be made in it, we are at the present time giving great consideration. We have not arrived at any final conclusion on that point. The question comes up whether or not, for example, if we were to reach a conclusion that this area should

be improved, must we have legislation or is there power in the act?

Mr. THOMAS. Is it installment selling and buying?

Mr. CARY. Yes.

COMMISSION ON SALES—INVESTMENT COMPANIES

Mr. THOMAS. What part of the whole package purchase price is included in that first installment amount where the salesman gets 50 percent?

Mr. CONWILL. The Investment Company Act provides that the sales load for the entire term of the contract—say it is a 10-year contract—cannot amount to more than 9 percent of the payments. However, the act also permits 50 percent of the first-year payments to go to the sales load.

Mr. THOMAS. Overall that is 18 percent, then, is it?

Mr. CONWILL. It averages out to 9 percent.

Mr. THOMAS. Less than that. If the statute limits the overall package sales commission to 9 percent and the salesman gets 50 percent of that in the first year——

Mr. CARY. Fifty percent of the whole amount.

Mr. CONWILL. He gets 50 percent of the first year's payment, and thereafter——

Mr. THOMAS. It amounts to par value?

Mr. CONWILL. Fifty percent the first year, and then in the 2d through the 10th year the sales load amounts to about three and a half percent so the overall average works out to 9.

SALES COMMISSION ON INSURANCE POLICIES

Mr. THOMAS. An insurance company who sells a life insurance policy, 20-year, what do they pay the salesman?

Mr. CONWILL. They will vary all the way, I suppose, from 50 percent to in some cases, I am told, for sales commissions and administrative charges it may be 125 percent of the first year's premium.

Mr. THOMAS. What does it average out? Does it average out more than the commissions under the act?

Mr. CONWILL. Yes, it does average out to more.

Mr. THOMAS. For the insurance company?

Mr. CONWILL. For the insurance company.

Mr. THOMAS. It has worked well for the insurance company and John Public, too.

INSURANCE POLICIES AND MUTUAL STOCKS

Mr. CONWILL. There is a slight difference. It you buy mutual fund shares you are investing. When you buy an insurance policy you are certainly in part buying protection which you get immediately when you make your premium payment in the full amount regardless of how much goes to the salesman for a commission.

If you take out a $10,000 ordinary life policy, the instant you make your payment you are protected for $10,000 regardless of what the insurance company may pay the salesman.

Mr. THOMAS. So what? Who pays it in the final analysis anyway?

Mr. CONWILL. You pay it, but there is a difference between buying insurance——

Mr. THOMAS. Is it an insurance policy you are buying or a stock company policy?

If it is mutual shares policy, look at that for a moment and see what it amounts to. If it is an insurance policy it is based on broad general coverage where John Public picks up the bill.

Mr. CONWILL. That is right.

Mr. THOMAS. What is the difference between that and the mutual stock company?

Mr. CONWILL. The difference between that and a mutual fund we are talking about?

Mr. THOMAS. Yes.

Mr. CONWILL. I would say the difference is that in a mutual fund you are investing in securities. For example, if you went to a bank, put your money in a savings account, you would be a little surprised if you found out that 50 percent of what you put in the bank as an investment went to pay a salesman.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. THOMAS. In the bank example you gave, if a depositor put in money with the idea it would remain there and draw interest, and he doesn't realize that when he deposits the bank has authority to go out and invest that money as it sees fit, that is something else. That is where you come in in regulating securities and exchanges. That is the basis of your disagreement with the Comptroller of the Currency.

COMMON TRUST FUNDS

Mr. CARY. We say in our problem, vis-a-vis the Comptroller, we are taking the position there, sir, that a bank is acting like any other sponsor of a mutual fund, and if it decides to set up a fund out of which its clients will have a proportionate interest, they won't have any claim against the bank as such and it is not the liability of the bank. The clients will just have the right to a proportionate interest in that fund of securities which the bank, as investment adviser, selects. Then we say they are in exactly the same kind of business as a mutual fund.

With that in mind we say there should be a uniform——

Mr. THOMAS. He still has an action and that is for the particular security the fund buys.

Mr. CARY. The depositor has a claim against the bank as depositor. There is a second role, as buyer of a mutual fund of which the bank is sponsor. I assume it will be just like a mutual fund. He would have a right to have his interest redeemed.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. CARY. I was pointing out what the claim of a person who would be an investor in one of these funds organized by a bank would be. I would assume his claim would be like that of a shareholder in a mutual fund, simply that at any date he might have the right to redeem his prorated interest in that fund and get a cash equivalent to the market value of the shares then held by that fund.

Mr. THOMAS. As of that date?

Mr. CARY. As of that date; that is correct.

Mr. EVINS. It is a separate arrangement or agreement with the bank.

Mr. CARY. It would have to be a separate agreement. It might not take the form of a share but the fact of the matter is that it is exactly like a share because it is the same kind of right as you would have with a share in a mutual fund.

Do you want to add to that, Mr. Conwill?

Mr. CONWILL. I don't think so.

Mr. EVINS. You don't get into the banking business in this law, do you?

Mr. CARY. No, and we have no desire to. We have taken the same position as to the variable annuity and insurance companies. All we are saying is that when an insurance company gets into the mutual fund business, or a bank gets into that business, or a mutual fund gets into that business, they should be subject to the same kind of law.

Mr. THOMAS. Whether it is a bank or an insurance company, that is why they are interested in your coming out with recommendations.

Mr. CARY. That may be the reason. I would say that these problems are sufficiently complicated, from just the questions you have asked——

Mr. THOMAS. Is Sears, Roebuck interested in this, too?

Mr. CARY. They are now applying and may ultimately organize a mutual fund.

MUTUAL FUNDS OF INSURANCE COMPANIES

Mr. EVINS. To what extent have you looked into the mutual funds of insurance companies as against just organized investment companies?

Mr. CARY. Mr. Evins, we certainly would not attempt to get into the regulation of insurance companies as such. We would focus only on the fund that is really a separate fund.

Mr. EVINS. To what extent have you focused on that? What have you done?

Mr. CARY. There are relatively few of them now. There is the Variable Annuity Life Insurance Co. of the District of Columbia and one other. Those are subject to our jurisdiction.

At the present time, we are at the stage of negotiation with the Prudential Life. We won a case in the Third Circuit Court of Appeals which upheld our jurisdiction over that fund of an insurance company which represents a variable annuity interest. We are trying to establish the principle that we have the same uniform jurisdiction over banks and insurance companies.

FEES OF THE COMMISSION

Mr. THOMAS. We want you to tell us about the $3 million in fees collected and the total cost of running the commission of about $15 million. Why can't you get on a self-sustaining basis? You have had the authority since 1952. Why should not these people who make tremendously large sums every year. It makes no difference whether the investor loses or gains, the other side of the table always makes money. Why should these people who make tremendously large sums every year not be on a break-even basis? You collected $3 million.

You have an expense of $15 million. Why can't you even that up? You have the authority now. You have had it for over 10 years.

Mr. CARY. Sir, I don't know that I will answer your question satisfactorily. May I say first that the cost involved in this Division of Corporate Regulation has up to this time been relatively small.

Mr. THOMAS. I anticipated that answer. Two or three divisions pay for themselves but we are looking for the balance.

Mr. CARY. We have moved ahead in this Division in the last 3 years because we think this is of great importance. We have moved toward increasing the number of people and therefore the cost. There is no doubt of it.

Why we should not attempt to raise fees in that area—put it this way—why we have not done it, perhaps we may be derelict, but I think if you would encourage us to do so and, indeed, think——

Mr. THOMAS. Put it on a percentage basis. Your overhead bill is about $15 million. Here you have $35 billion, $60 billion, no telling how much—what do you think is the fair amount charged in the way of fees each year for the professionals who are in the business, whether they are advisers, brokers, stock companies, or whatnot?

Mr. CARY. It might be better approached as a charge—I don't know whether it would be the investment adviser or the fund itself. I suppose it would be on the basis of the cost to the Division of Corporate Regulation which is the one responsible for it. That would be the approach we could take.

I confess we have not taken any position in that area up to this time.

Mr. DONATY. I believe in the 86th and 87th Congresses, bills were introduced into the Congress. I believe the Senate passed it and the House did not.

Mr. THOMAS. You already had the authority. Why didn't you use it? You didn't need any more authority.

Mr. DONATY. I believe you are referring to title 4 or 5 of the Appropriations Act of 1952.

Mr. THOMAS. Title 5, 1952. You are right.

Mr. DONATY. If I can recall my history on the SEC, I was not here at that time——

Mr. COHEN. I can speak to it, Frank. I was here.

May I, Mr. Chairman?

Mr. THOMAS. Go ahead, Mr. Commissioner.

Mr. COHEN. At that time, after the legislation (title V) became law, we were encouraged—the SEC was encouraged—to take steps. The SEC was in fact the first agency to initiate steps in this direction. We did put out various proposals for various additional fees of one kind or another.

We were then met with all kinds of opposition.

Mr. THOMAS. First, Mr. Commissioner, which of the many operators under the various acts you operate under are not self-sufficient and pay their own costs? I remember there was a storm of protest from the stock exchanges and the brokers. There were hundreds of letters poor-mouthing, it was terrible, you would ruin the business. You never heard so many poor-mouthed pleas. Was that the basis of it?

Mr. COHEN. This was in part one of the difficulties the Commission ran into.

Mr. THOMAS. What does it cost the taxpayer a year in regulation?

Mr. COHEN. I haven't the exact figure. This is the broker-dealer program. Frank, would you have the figure?

Mr. DONATY. Registration of investment advisers and broker-dealers approximately $150,000 to $175,000 a year.

Mr. THOMAS. That is a small part. What about the exchanges? That is where most of the complaint came from.

Mr. COHEN. I think a substantial number of the complaints came from broker-dealers as well as from certain small issuers who felt it would be unwise and unfair to impose on them what they considered to be a proper governmental cost. They viewed it as an additional tax.

Mr. THOMAS. My memory seems to be that the mail came from the brokers on the big exchanges in every community where they had offices.

Mr. COHEN. That is true. I didn't mean to suggest otherwise. The bulk of the mail and the bulk of the complaint came from the broker-dealers. There is no question about that.

One of the arguments they put forward was that under the 1934 act there already is provision for some revenue that comes to the Commission, or I should say to the Government. This is a fee in essence.

COST OF AND FEES FROM REGULATION

Mr. THOMAS. What part of your overhead expense goes toward the regulation of the broker-dealers of the $15 million? Can you put a percentage on it?

Mr. DONATY. Top-of-the-head estimate for regulation of broker-dealers is approximately 10 percent, sir, and 40 percent to cover the cost of all investigations and enforcement actions.

Mr. THOMAS. What part of the $3 million comes from them? You have a charge against them of half of your total cost, seven and a half million dollars, what do you get from them in the way of fees?

Mr. DONATY. From the exchanges, about $1.3 million. For registration statements, about another $1.5 or 0.6 million.

Mr. THOMAS. What is the total amount, about $3 million?

Mr. DONATY. About $3 million, yes, sir.

Mr. THOMAS. Then they are short about four and a half million dollars. They lack that much of paying their way. Is that right?

Mr. DONATY. That is right.

Mr. THOMAS. With the amount of money they handle and the amount of fees they collect—what is the amount of fees they collect? Have you a horseback opinion on that? Certainly four and a half million dollars would be very small in the way of a charge. It would be a negligible charge. What is your answer to that?

Mr. CARY. Mr. Chairman, I don't have a total answer to that. I will say this, however: In our substantive legislation area, we are going before Mr. Harris tomorrow to discuss a proposed bill and other matters. We are pushing in the direction of placing greater additional responsibility on both the exchanges and particularly the NASD which is a quasi-regulatory agency.

Mr. THOMAS. National Association of Securities Dealers?

Mr. CARY. Yes, sir. They have increased their budget very substantially and we are expecting them to lift it perhaps double in the near future.

As a consequence, I must confess to you that we have not been as anxious to push the raising of fees affecting them because we know they will get hit in another direction through self-regulation which they will have to increase in large measure.

The point I make, however, does not apply to investment companies, I confess to you. We might try to push toward greater self-regulation in the investment company field but it is not happening to the same extent and, as a consequence, I think your point is well taken that perhaps the financial burden is not being equitably shared by investment companies with respect to the costs of their regulation.

Is that correct, Mr. Conwill?

Mr. CONWILL. Yes, sir.

Mr. THOMAS. That is very interesting.

Mr. EVINS. You have the statutory authority. In view of the recent report on unregulated flow of money in the market, the tremendous growth of these investment companies, why would not all of this be a predicate for you now to set up a schedule of increased fees?

Mr. CARY. I think we should consider it. Particularly relating to this group it is true we are not proposing to burden them with large self-regulatory responsibilities which in turn would increase their costs.

INVESTMENT ADVISERS

Mr. THOMAS. What about the investment advisers? Give us a bird's-eye view of them. How many do you have now? You want eight more employees for this?

Mr. CARY. Yes, sir.

Mr. THOMAS. Where will they be located?

Mr. CARY. All in the field, Mr. Chairman.

Mr. THOMAS. How many do you have now?

Mr. CARY. At the present time we have——

Mr. DONATY. Seven people out in the field.

Mr. THOMAS. What is an investment adviser? We spoke of him a while ago.

Mr. CARY. An investment adviser is a person licensed to give advice on the investment of securities to individuals.

Mr. THOMAS. Does the statute make it mandatory that he must be licensed before he engages in interstate commerce?

Mr. CARY. He must register with us.

I might ask Mr. Saul to speak to this because he knows the subject best. In general they are required to register with us and are subject to certain requirements under our act.

Mr. THOMAS. Do you have any leeway in issuing and withholding licenses?

Mr. CARY. Very limited.

Mr. SAUL. I will give it in short form. I think anyone who under the statute engages in the business of giving investment advice for a fee must register with us as an investment adviser.

There are, however, certain exceptions from that registration requirement. For example, investment advisers who have investment companies exclusively as their clients need not register with us.

Newspapers, general publications, public or general publications need not register with us.

In general, anyone engaging in the business of giving investment advice.

(Off the record.)

Mr. EVINS. Mr. Chairman, please proceed, and continue with your statement.

INVESTMENT ADVISERS INSPECTION PROGRAM

Mr. CARY. As you recall, we were just approaching the second phase of our request, having completed our discussion of the investment company inspections. We are addressing ourselves to the investment advisers. We are requesting eight positions for our regional offices, in other words, for the field, so as to achieve a 4-year inspection cycle, which involves the inspection of 440 investment advisers as compared with 235 and a 7-year cycle for this year.

Mr. EVINS. If I may interrupt, you have 440 investment advisers registered with the SEC?

Mr. SAUL. No, sir. As of the end of January we had 1,605 registered with us.

Mr. CARY. In other words, this will get us around to inspecting each of them roughly once every 4 years if we obtain this additional manpower.

Up to this time it has been only once every 7 years.

Mr. EVINS. What has been the result of your inspection of the investment advisers, let us say in the last 3 years?

Mr. CARY. In the first place, may I say I had something to do personally with trying to push this ahead because when we stepped up our inspection of investment companies, we found we located a number of problems that had been hidden under the water, so to speak, and as a consequence, we decided by the same principle we ought to look into investment advisers.

I would say we have found some violations of a serious nature, but it is our belief that we can find a very substantially larger number if we begin to step up our inspection in this area. We just won a case in the Supreme Court, *SEC* v. *Capital Gains Research Bureau*, in which we took action against an investment adviser who would buy a security and then send out a brochure recommending it to the public, and then as it went up in price he would sell out. That is a practice known as scalping. The case broadly interpreted the antifraud provisions of the Investment Advisers Act, and with that kind of precedent before us, it is obvious that we have a basis for going after investment advisers for wrongdoing which we did not have before. It is our opinion that we can in this area very substantially improve the situation.

Mr. EVINS. This type of inspection is long overdue. You have had this authority all the time, but it has been supplemented through court decision only recently.

Mr. CARY. We had the authority all along. We obtained additional authority in recent years because there was an amendment to the act in 1960. So, really our powers have increased very substantially, and they will, as a practical matter, be increased by virtue of this decision of the Supreme Court.

TYPES OF INVESTMENT ADVISERS

Mr. JONAS. You see the ads of the investment advisers in the papers all the time. "Send us a dollar and we will put you on a mailing list for a month—we will send you a list of 28 companies which are scheduled for stock splits," and that sort of thing. How many of them are operating?

Mr. CARY. A total of 1,600 at the present time, sir.

Mr. JONAS. Do you make any effort to determine if all of them are trustworthy?

Mr. CARY. Sir, I think I will ask Mr. Saul to elaborate, but may I say generally we have only a fairly limited number of standards under the act by which we can in effect classify somebody. As a consequence, we can speak only to those that have violated the acts under which they have registered. I think Mr. Saul could speak to the general situation in connection with those 1,600.

Mr. SAUL. Yes, sir.

I would say, adding to what the chairman said, that most of our 1,600 registered investment advisers are of the kind that you spoke about, namely, what we call publishers. In other words, all they do is publish on a periodic basis some kind of publication giving investment advice.

Also, in the 1,600 registered investment advisers, there are what we call investment counsel. Investment counsel are people who have generally a rather restricted group of clients to whom they give individual advice.

I would say, sir, one of our principal controls over publishers, in addition to the inspection program which the chairman has outlined, is our controls over advertising. We have developed rules recently under the legislation that Congress gave us in 1960 in which we set forth standards as to investment adviser advertising. We have proceeded against a number of investment advisers during recent years on the ground that their advertising was false and misleading. That has been one of our principal controls in addition to the inspection program which the chairman has outlined.

ADVERTISING BY INVESTMENT ADVISERS

Mr. JONAS. I notice one magazine has about four people writing columns, all of whom give investment advice. "I like 'X' stock" or "I recommend that you take a look at 'Y' stock." Do you look at this sort of thing?

Mr. CARY. We are not in a position to examine, say, the quality of their investment advice unless it be fraudulent, of course, but we are in a position to examine to see whether or not their advertising is overlurid. For instance, they may publish that fact that last year we recommended General Gadgets and it went up 500 percent, but they may not point out that they recommended 15 other stocks, all of which went down. We have certain limits on their mode of advertising, advertising which is impermissible under present law.

Mr. JONAS. You are policing all of those?

Mr. CARY. That is correct.

Mr. JONAS. You take a careful look at all of this advertising?

Mr. CARY. That is correct.

Mr. COHEN. I think I should add in the case you mentioned, as in the case of certain other publications of general circulation, those are specifically exempt from the statute by provisions of the statute.

Mr. JONAS. I thought that was true, because they work for a publication as editors and columnists, and the people who read their advice are the subscribers to the publication.

Mr. COHEN. Exactly.

Mr. JONAS. That is a little different than putting an ad in the Wall Street Journal, the Charlotte Observer or the Washington Post that "10 stocks are scheduled to split in the next 6 months. Why don't you get the list? Send in a dollar."

Mr. WYMAN. Who in the SEC has a close eye all the time on the investment advisers, for example? Is there some one person?

Mr. CARY. This is the Division of Trading and Markets under the general supervision of Mr. Saul.

Mr. WYMAN. If there was a rascal in the field or a series of them, you would be the person, probably, more than anyone else, whether or not you had the power under existing law to regulate them effectively, who would know who was pitching the curve balls and who was not, is that right?

Mr. SAUL. Yes, sir, together with people in my Division and the people in the field who, of course, are very important. They are down at the ground level on this and are actually inspecting investment advisers. Ultimately, the case comes up through my division and we make recommendations to the Commission, if enforcement action is required.

ACTION ON INVESTMENT ADVERTISING

Mr. WYMAN. I notice in your justifications on several occasions you refer to the quality of being able in the sense of an ounce of prevention is worth a pound of cure, to nip situations in the bud. Did you ever call some of these boys in and say, "Look, cut this out?"

Mr. SAUL. Yes, frequently. For instance, if we noticed the advertising was false, misleading or unusually flamboyant, we would not institute a suspension proceeding against them, but call them in and talk it over with them and tell them what remedies we think should be pursued in cleaning up their advertising, and give them a reasonable opportunity to make remedies.

Mr. CARY. Perhaps, also, Mr. Young, the head of our New York regional office, and Judge Allred, the head of our Fort Worth office, could add to that if you would like to hear from them. They can give you the regional approach to the problem.

Mr. WYMAN. Yes. In that light, what is the attitude of the investment advisers and investment counsel toward the SEC generally. Do they resent this policing, or how do they feel about this?

Mr. EVINS. Mr. Young, will you fill us in on your New York work and experiences?

Mr. YOUNG. It has been our experience that the responsible investment advisers, as responsible brokers, are only too anxious to coperate with us 150 percent. Once in a while we do run into a fellow that I would describe as irresponsible, to say the least, who runs away instead of coming in and working it out. By and large, the industry has been very anxious to cooperate and frequently when we

see a problem developing throughout an industry, we will call in some of the leaders in the investment advisers' group and talk it over with them. The word goes throughout the industry without our taking any legal action or formal action of any kind.

Mr. WYMAN. The legal action that you might take would be in the form of an injunction to stop them?

Mr. YOUNG. Yes, sir.

Mr. WYMAN. Is it within the investment advisers' group itself a stigma to have been the recipient of injunctive process by the SEC?

Mr. YOUNG. Very much so. We also have administrative remedies. We have one interesting case which is currently the subject of an administrative proceeding in which it is alleged that an investment adviser got out two issues of one of these sheets recommending that you buy a particular stock and extolling the virtues of the management. We happened to know something about the management and we called in the investment adviser and pointed out that the president of this company whose securities he was recommending was just about ready to start a 5-year jail term for mail fraud. At that time we started a proceeding against him for not looking sufficiently into the company at the time he made the recommendation.

AUTHORITY UNDER THE INVESTMENT ADVISERS ACT

Mr. WYMAN. When you talk to these people at the informal stage you do not, of course, issue any subpoenas at that time, but suppose you said, "I would like to see your records on the XYZ company"? Do they produce the records on the XYZ company, or do they have to have a subpoena served on them?

Mr. YOUNG. We are empowered by statute to see the records which they are required to keep by statute. That would include the type of records they keep on recommendations they make to their customers. In making our inspections, we frequently make a spot check of two or three of the recommendations and ask them to show us an example of the homework they did in making those recommendations. We do not agree or disagree with the recommendations. We just want to know what they did before they made the recommendation.

Mr. WYMAN. What do you do with the fellows that you know are taking advantage of the general public and yet who are clever enough to make sure they are not actually breaking the law, the fellows who offer and recommend investments that have just enough equity in them and just enough of a speculation to meet the requirements, and then go sour, but not fraudulently so, for internal management reasons, and so forth; and this happens several times? Can you in the regional office say that John Smith has really pulled about the fourth fast one in a row here, yet we cannot quite get to him? Is there any way you can protect the public in that situation?

Mr. YOUNG. You are quite correct in your observation that there is a gray area in which you and I might know that this man is really not giving out sound advice, but it is not really fraudulent. We do not have enough of a case actually to go to court on it. We watch him very closely. We bring him in and urge upon him to be a little more careful in his recommendations. Until he actually makes some overt

and concrete step which comes within our statute, our hands are tied and all we can do is watch him carefully.

Mr. WYMAN. While this may not be exactly the committee for this question, do you think you have enough legislative authority at the present time, or do you need more to deal with this kind of situation?

Mr. YOUNG. I would rather yield to the chairman on that.

Mr. CARY. I suppose our authority in the field of investment advisers is relatively limited. We were pleased to have that increase in power or, shall we say, increase in standards enacted by the amendment of 1960. I do not regard our power in the field of investment advisers as very broad. Perhaps it is really not broad enough.

What would you say, Mr. Saul?

Mr. SAUL. It may not be, Mr. Chairman, although I think up to this point, with the expansion in 1960, it appears so far to have been adequate.

Mr. CARY. We are really just getting underway in this area in some ways. As you have noticed, we have been able to inspect the investment advisers only once every 7 years. There are certain areas that I think some of us have felt very strongly had not adequately been touched.

One of them, besides the investment company area, was this investment adviser field.

Mr. EVINS. We have Mr. Allred here with us. He comes all the way from Texas. I wonder if he would give us the benefit of his wisdom, judgment, and experience.

Have you a list of "wheeler dealers" out there in your jurisdiction in Texas?

Mr. ALLRED. There are a number of investment advisers out there. They are generally high-class people. We have not had the problem that they have in New York or perhaps in Chicago.

Mr. EVINS. You do not need any additional personnel out in your regional office, then?

Mr. ALLRED. We are asking for two additional people for the investment company inspections.

Mr. EVINS. For inspection and investigations work, but not investment advisers? You do not need any additional personnel for investment adviser investigation?

Mr. ALLRED. We are using our broker-dealer inspectors. They are presently doing that work. We are working in some of our investment advisers with our present staff.

Mr. EVINS. Can you absorb all the additional work in your branch, in your field office, with the present staff you have available? Can you handle all the work that the chairman and the Commission are assigning to you with your present staff out there?

Mr. ALLRED. No, sir. I have asked for four additional people.

Mr. COHEN. May I add a word to supplement the answer to the question put here. I did not want to leave a picture of complete frustration in the situation that you have mentioned. This situation does arise. When our people feel that a person has been acting up enough times and is close to the line, then a formal and intensive investigation is initiated. This is part of the reason that we want additional people in investigations and enforcement, to supplement the inspectors and to make a thoroughgoing investigation of the affairs of a person of this kind.

Mr. WYMAN. Mr. Cohen, when there is a cycle of once every 7 years for an investment adviser to be the recipient of an investigation, and you hit him this particular time, does this cost him any money? Does it slow him down in his operations? Are there agents of the SEC running through his place and hauling out his files?

Mr. COHEN. There are people who come to visit him, but they do not really interfere with his business.

Mr. WYMAN. It does not cost him anything, then?

Mr. COHEN. No; it does not, as distinguished, for example, from a bank examiner going into a bank and the bank paying for it. Our law does not provide for it.

RECOVERABLE COSTS FOR INSPECTIONS OF INVESTMENT ADVISERS

Mr. WYMAN. Is there any recommendation for the regulated financial community here, within proper limits, making some contribution and paying for the SEC examination?

Mr. COHEN. Some consideration has been given to this. As I started to say before, by virtue of title V, some thought was given to this some years ago, but there was considerable criticism at that time, not only from people regulated, but there were many people in the Congress who felt this was perhaps something that the Congress itself should deal with specifically rather than leaving it to rule-making.

Mr. JONAS. They are paying about 20 percent of it now; are they not?

Mr. COHEN. These particular people I do not think make any contribution.

Mr. JONAS. I mean the investment community.

Mr. COHEN. The community.

Mr. CARY. About $3 million, Mr. Jonas, out of the $15 million that we are asking for.

Mr. JONAS. They do not collect the total cost of the police force in traffic fines.

Mr. COHEN. Points of the kind Mr. Jonas is making now, I think led to the abandonment of this program some years ago.

Mr. EVINS. You might look at the very excellent Federal Deposit Insurance Corporation Building around 17th and the Avenue, which was built without appropriated funds. The banks of the Nation all contributed to that building. The Securities and Exchange Commission is a very important Commission and has a responsible function. You have already delineated earlier its tremendous growth in various areas. The chairman has suggested, and I am supporting the chairman in the suggestion, that the Commission may well look to revising its schedule of fees. Maybe some of these funds could be provided for an adequate building for the SEC. I understand you are in need of quarters.

Mr. COHEN. Amen.

Mr. CARY. We are in third-class quarters, the only one of any regulatory agency in the Government.

(Off the record.)

Mr. EVINS. Will you proceed, Mr. Chairman?

Mr. CARY. I would like now to address myself to the third segment, in which we are asking for a total of 20 people. That is the area of investigations and enforcements.

We have been trying to place the enforcement responsibility on a sounder foundation and propose to intensify our efforts in this area. Of the 20 positions we are requesting, we are asking for 18 for the field and 2 clerical positions for the Division of Trading and Markets.

Judge Allred, for example, said he was asking for 2 more people in the field of investigations and enforcement out of those 18.

The additional positions are necessary in order to accelerate the disposition of investigations as well as administrative, civil, and criminal proceedings pending before the Commission and courts. Our backlog of investigations has reached an unrealistic figure of 1,095 on last December 31 and must be reduced.

For the 6 months ending last December, 87 administrative proceedings were instituted as compared with 77 for the entire fiscal year 1961. In this same area, the number of defendants in these proceedings has more than doubled in the past 5 years.

During the past 4 fiscal years, that is, 1960 to 1963, 208 cases were referred to the Department of Justice as compared with the same number for the previous 10 years—that is, 1950–59.

Mr. EVINS. Do you mean, Mr. Chairman, you referred more cases in 3 years than you had previously in 10 years?

Mr. CARY. That is correct, yes. We have been exceedingly active in this field in recent years.

It is estimated that 55 criminal reference reports will be referred to the Department of Justice in both 1964 and 1965. Moreover, the number of charges and of defendants and coconspirators in the past years has increased significantly.

Emphasis on developing criminal cases has broad implications in utilizing our personnel. First of all, our job is to obtain the evidence in these criminal cases and, second, additional manpower is needed to assist U.S. attorneys in the grand jury phase of the case and its prosecution. The number of employees engaged in assisting U.S. attorneys has increased by 50 percent in the past 2 years.

I might say, to supplement my statement, we had several people spend at least a full year in New York City on one case alone, which of course lasted actually a year in the courts.

Mr. DONATY. Thirteen months.

Mr. CARY. Thirteen months in the southern district of New York.

That completes our request for 20 additional positions with respect to investigations and enforcement.

Mr. EVINS. How many people do you have in this Division of Investigations and Enforcement at the present time?

Mr. CARY. The Division of Trading and Markets has to be examined together with the regional offices in order really to arrive at the total figure. I think Mr. Donaty may be able to give us the total figure of people doing exclusively that kind of work.

Mr. DONATY. Out in the field, primarily for this program, there are approximately 350 people, that is, on this program of investigations and enforcement actions.

Mr. CARY. Over half of our field personnel.

Mr. EVINS. How many did the committee approve last year for this particular work?

Mr. DONATY. There was no increase at all for any work this year over last year.

Mr. CARY. We asked for some, Mr. Chairman, but we did not get any. Because we feel the need of it and because our investigations and enforcement work has increased, we are asking for additional people.

Mr. EVINS. Thank you, Mr. Chairman.

Proceed, if you will, please.

REGULATION OF EXCHANGES AND OVER-THE-COUNTER MARKETS

Mr. CARY. Our next priority is the regulation of exchanges and the over-the-counter market and economic and statistical research.

For 1965, seven additional positions are requested for this program, distributed as follows: Five for the Division of Trading and Markets, and two for the Office of Program Planning.

The Division of Trading and Markets must be strengthened so as to assume further responsibility for more effective supervision over self-regulatory organizations in order to carry out recommendations contained in the report of the special study of securities markets. I might say, as you well know, this study has produced a large number of recommendations, a total of 175, and one of the areas which it emphasized most was our further jurisdiction and supervision over these self-regulatory institutions, whether they be the exchanges or the NASD. In other words, we leave a great deal of responsibility down in those institutions, but also there ought to be some oversight over them.

Mr. EVINS. At this point, Mr. Chairman, your report has been completed, and it received widespread attention. You make a number of recommendations. Is the Commission now attempting to implement those recommendations insofar as you have authority and means to do so?

Mr. CARY. We are, sir. We are constantly working with the exchanges and the NASD, and substantial steps have been taken. I would say relatively few new rules have been published, I think two thus far, and many are in the mill right now in order to carry out the recommendations of the special study.

Mr. EVINS. Much of the burden of this report is in the nature of shifting the responsibility on these self-regulating agencies?

Mr. CARY. I would say a very substantial number of the recommendations have to go directly to the self-regulatory institutions to be carried out, but it is our job to try to urge them in every way possible, and sometimes even by rule, to have them carry those functions out to completion.

REGULATION OF FUNDS OF FOUNDATIONS

Mr. EVINS. In this connection, Mr. Chairman, we have a subcommittee of the Committee on Small Business, the Subcommittee on Foundations, of which the gentleman from Texas, Mr. Patman, is chairman, and he has made some extensive investigations and preliminary reports, as your Commission is aware.

One of the things Congressman Patman points out on your investigation is that one of the possible reasons for the recent wide drop in the stock market was "unregulated capital" which is flowing from unregulated foundations. Has the Commission any jurisdiction in the field of the regulation of the funds of foundations? Are you exercising the authority? Do you propose to do anything in this field?

Mr. WOODSIDE. Mr. Chairman, the only impingement of our statutes upon the activities of charitable foundations occurs when occasionally one of them wishes to sell securities to the public where a control question is involved and registration under the Securities Act of 1933 is necessary, or where perhaps some company or controlling person of a company wishes to give securities to a foundation for some particular purpose, and again registration of the securities under the 1933 act becomes necessary. Except for that, I do not believe we are concerned.

Mr. COHEN. I might add, Mr. Evins, that some of the information in Mr. Patman's report actually came from information on file with the Commission. I would only supplement what Mr. Woodside said to indicate that on occasion, foundations have been used by individuals to carry out various purposes, such as proxy fights and things of that sort. In that area, our job has been limited to eliciting the relevant facts and getting them out in the public prints. This is what we have done.

As I say, Mr. Patman got a great deal of his information from our files.

Mr. SAUL. I might say insofar as the Patman report involved registered broker-dealers, we have that problem under our jurisdiction.

Mr. CARY. I would like to ask Mr. Loomis, our General Counsel, to speak, also.

Mr. LOOMIS. I would like to say, in addition to our furnishing information to the Patman committee, they have furnished a good deal of information to us in terms of material that they found and their report. We are looking into that for the purpose of determining whether there is anything that does fall within our jurisdiction there.

As Commissioner Woodside points out, we do not have any jurisdiction over foundations as such.

Mr. EVINS. The Internal Revenue Service has been derelict in its inspections of foundations and their operations, and, as I understand it, one of the conclusions in your special report following your investigation was that one of the possible reasons for the tremendous drop in the stock market was the use of unregulated flow of capital by numerous so-called charitable foundations.

Mr. CARY. Moneylenders generally, I think.

Mr. EVINS. The foundations comprise such a large body and control such a large volume of funds in this area, over which the SEC has no apparent effective jurisdiction and the Internal Revenue Service is not making concerted effort at regulation or inspection, this might be one reason for the stock market break.

Mr. JONAS. Which break is that?

Mr. CARY. May 28, 1962.

Mr. EVINS. The condition which brought about the special investigation. Following the big break, the Commission asked this committee for additional funds for a special study.

Mr. CARY. Mr. Chairman, I do not think we can speak to the quantitative effect of moneys from foundations. I just do not think we have

enough information at this moment. The unregulated credit which did exist at the time was substantial, although I think its effect was indeed more qualitative than it was quantitative. That is, in certain securities it did have an effect, undoubtedly, in driving their prices up. Whether or not the contribution made by foundations was substantial, I do not think we really have at the moment information.

Mr. EVINS. I believe the Commission should have authority to determine the numbers of shares of stocks purchased and sold from foundation funds. There is an indication in this report that there is a tremendous amount of trading in the open market with foundation funds.

Mr. COHEN. I think that is right, Mr. Evins. There were suggestions of this kind. There were also suggestions that perhaps some of these foundations were acting almost in the nature of brokers or dealers in securities.

These are the areas in which Mr. Saul and Mr. Loomis indicated studies are under way at the Commission.

Mr. EVINS. Thank you, Mr. Chairman. Proceed, please.

OVERSIGHT OF SELF-REGULATORY INSTITUTIONS

Mr. CARY. I was just going to go on with respect to the role our regulation has over the exchanges and self-regulatory agencies, to point out the Special Study of Securities Markets reported that the Commission had not established an effective, that is, an adequate, system of surveillance of the exchanges' enforcement and disciplinary activities and in general had equipped itself, in personnel and procedures, only for the most passive role of surveying whatever is brought to its attention.

So, in the past year we have strengthened the Division's Office of Regulation and have accelerated our oversight of the self-regulatory institutions.

The study also recommended that the Commission be more adequately staffed to enable it to give greater emphasis to the compilation, analysis, and publication of data concerning the trading market. The complement of the Office of Program Planning, which has been organized during the past year, and the Office of Statistical Studies of the Division, must be supplemented so as to carry out this vital mission.

I might say we have been fortunate to have Mr. Werner with us the last year and a half. He is the Director of the Office of Program Planning. He came from business, and has joined the Government for the first time. The role of that Office which has been formed is really to have a small group who would see that the recommendations of the special study are being carried out and to see what further steps the Commission ought to be taking in the light of changes in the industry as a whole.

Mr. EVINS. Do you mean, Mr. Chairman, as a result of this very important and extensive study, you have recommended the establishment of another Commission within the Commission?

Mr. CARY. No, sir. The real work is being done by the divisions, that is, Mr. Saul as head of Trading and Markets, Mr. Conwill as head of the Division of Corporate Regulation, Mr. Worthy, Director of the Division of Corporation Finance. When you are involved with

175 recommendations covering a wide gamut of fields, you need a small group to sort of keep on top of them all; in other words, to see what is happening in each in order that we may know what is developing with respect to carrying out each of those recommendations. It is really a sort of coordinating and centralizing Office of Program Planning, and it is not a large number of people.

BIOGRAPHY OF MR. WALTER WERNER

Mr. EVINS. Mr. Werner, tell us a little about your background and what you propose to do in new programs and studies in the Commission. It is good to have a new, fresh face brought in with this Commission.

Mr. WERNER. My background is probably diversified for the work I am doing, but I think it blends with it very well.

I am a lawyer by training. In law school I specialized in securities and, as a matter of fact, did my major job in the law school in the field of securities regulation. That was at a time when the SEC was a lot younger than it is now.

Mr. CARY. May I say he was chairman of the Yale Law Journal, which meant he was top man in his class at Yale Law School in that year.

Mr. WERNER. Later I went into the practice, of law, first in Connecticut and then in Pittsburgh, corporate practice in Pittsburgh. Subsequently, I went into my own business back in Danbury, Conn., where I was a fuel merchant, oil burners, gasoline, and was involved in real estate. At that time, I was interested in the securities market. In fact, I was interested in it throughout, but more in the role of an investor than in any other capacity.

I sold my business early in 1961 and became a consultant to an international oil company which purchased it, and found that was not a very fruitful kind of work, and when several opportunities presented themselves to come into Government service, this was the one which impressed me as being the field in which I could make the maximum contribution. So, I have been with the Commission for the last year and a half, first as Associate Director of the Division of Corporation Finance and since last July as the Director of the Office of Program Planning.

FUNCTIONS OF THE OFFICE OF PROGRAM PLANNING

As I visualize my present job or my present capacity, it is really threefold. The first portion of it, the part we are engaged in right now, is to implement the recommendations of the special study. This is a very difficult and very complicated job, because it is more than just implementation alone; it is more than taking the recommendations of the study and putting them off to one side as a special area for development and work. Rather, it is a matter of doing the work of implementation at the same time that the Commission itself and its staff are doing their day-to-day job. In other words, it is very hard to say where implementation begins and where the routine administration begins.

We are working very close together with each of the operating divisions. In effect, although I am Director of this Office which has

primary responsibility, we have an ad hoc committee within the Commission of which I am a member and as well as the directors of the operating divisions, the General Counsel and Chief Accountant.

We are taking the primary responsibility for integrating and planning and coordinating the work.

My own staff is very small. We have a small number of lawyers. We have a smaller number of economists. We are looking for more. We need them.

At the moment, we are emphasizing almost exclusively the implementation of the study.

Our thought and our hope are and our objective must be that the implementation work will gradually fade off and that the permanent work of this Office will not be implementation of the special study but, rather, to see that in the future it is not necessary to do on a one-time crash basis what the special study did but, rather, that this Office of Program Planning will be doing that kind of analysis and research and recommending to the Commission so it is done on a continuing basis.

Mr. EVINS. Mr. Chairman, this is Mr. Werner, a new man who has been brought into the Commission to implement the special study. He has been telling us what they plan to do with respect to their

Mr. THOMAS. Have we confirmed him yet? We usually confirm all these distinguished gentlemen. You do not mean to say we have a new one that has not been confirmed?

Mr. CARY. He has been with us 18 months.

Mr. THOMAS. You mean the statute of limitations has expired?

Mr. WERNER. I feel like an oldtimer now.

Mr. THOMAS. We are delighted to have you. You were here last year?

Mr. CARY. I do not think he came to the hearing before you, Mr. Chairman, but he was in the Commission at that time.

Mr. Werner was just telling us, Mr. Chairman, of the role of the Office of Program Planning, the small group dealing with the implementation of the special study and coordinating the activities of the Commission in this area. That was the discussion we just finished.

Mr. THOMAS. Off the record.

(Discussion off the record.)

PERSONNEL FOR PROGRAM PLANNING

Mr. EVINS. How many people do you plan to have for this special division?

Mr. CARY. The Office of Program Planning, sir, has 19 now, and the total will be 21. This would include lawyers and economists, and so forth, persons who have to keep up with what the market situation is in the light of the materials developed by the special study.

Mr. EVINS. Can you not transfer some of your present staff to this work, Mr. Chairman?

Mr. CARY. Mr. Evins, as you well know, this was a very elaborate study that was made, coming up with 175 recommendations.

Mr. EVINS. Did not this committee authorize additional funds which provided additional personnel for this particular study?

Mr. CARY. Yes, sir.

Mr. EVINS. You were given additional personnel at the time.

Mr. CARY. Then a substantial number of them left the Commission at the end of that time.

Mr. THOMAS. How many did you keep? Thirty or thirty-five?

Mr. DONATY. We kept about 30 or 35 people out of the 65, including stenographic.

Mr. THOMAS. How permanent will this group be? This is the old carryover.

Mr. EVINS. It will be a permanent division.

Mr. CARY. This Office of Program Planning for the present time will certainly be heavily involved in the work of implementing for this year, and I would say the next year. After that time, whether or not it would stay at that size is really a question. It will all depend on whether or not there are new things happening in the industry that need study.

As Mr. Werner was saying, Mr. Chairman, in your absence, one of the objectives of this organization, once the implementation phase is overcome, is that we will not have to have another crash program or study of the securities market of the magnitude we had 2 years ago.

Mr. THOMAS. It was not upsetting. It was not a crash program.

Mr. CARY. It was a crash program around our organization. They were working night and day.

Mr. THOMAS. It was studied 20 months and did not upset any apple-carts. It was smoothly handled. We understand a crash program to be far different from what you have done here.

Mr. CARY. All I meant is that everybody was working late every day, and if you had seen the activities in the building you would have thought it was crash from our standpoint. That is all I meant.

Mr. THOMAS. I think you have done a magnificent job. I did not intend to detract from that.

Mr. EVINS. Would not those people who were assigned to the special study be those who were most knowledgeable in the field? Of course, all the people down there are knowledgeable and have great skills and abilities, but these people have made the special study and worked with it and lived with it, and it would seem to me if you have 45 you would have enough to continue your effort to implement it with your new chief of the Division.

Mr. WERNER. In fact, most of the people who are actually engaged in the program of implementation are people who were with the special study. There are very few new faces.

Mr. CARY. These are not a wholly new group, Mr. Evins. It just so happens they have been given a new label or new designation for purposes of coordinating the activities.

(Off the record.)

Mr. CARY. I am at the middle of page 6 of the statement, Mr. Chairman, where I indicate in summary that seven positions are requested to provide more adequate supervision over self-regulatory agencies and analyze economic and statistical data about the securities market.

Just to repeat a point that I had made, the special study emphasized that although more responsibility is being vested in these self-regulatory institutions, exchanges and NASD, at the same time more oversight on our part, of those institutions, is needed; and that is really the role they are to perform.

Sir, I have indicated generally the programs for which we are requesting 47 additional positions in 1965 for the regional offices, seven for the Division of Trading and Markets, and two for the Office of Program Planning. That makes a total of 56. The remaining four are one for an additional hearing examiner and three positions for administrative services resulting from our larger inspection and enforcement program.

WORKLOAD—HEARING EXAMINERS

Mr. THOMAS. How many cases did your hearing examiners handle all during the fiscal year 1963, and what is your timelag from the time when a complaint is filed and it goes to the hearing examiner until the time the Commission gets around to its actual disposition of the case?

Mr. DONATY. In 1963, the Commission authorized 165 administrative proceedings. The Office of Hearing Examiners disposed of 172.

Mr. THOMAS. How many hearing examiners did you have in 1963?

Mr. CARY. Twelve.

Mr. DONATY. Hearing examiners, eight.

Mr. THOMAS. Located in the field or in the District?

Mr. DONATY. Located in the District, in the Office of Hearing Examiners.

Mr. THOMAS. None of the hearings are in the field? They are all in the District of Columbia?

Mr. DONATY. No, sir; some of the hearings are out in the field. In fact, most of them are in the field.

Mr. CARY. Their main office is here, but they go out.

Mr. THOMAS. What is the nature of the cases? The preponderating majority of the cases come under what sections of the act?

Mr. DONATY. Primarily, I would say they are the broker-dealer and investment adviser.

Mr. THOMAS. Suspension of license; or what?

Mr. DONATY. Revocation of broker-dealer registration.

Mr. THOMAS. What was the total number of cases handled by your 12 hearing examiners——

Mr. CARY. I made a mistake when I said 12. It is eight, plus four stenographers.

Mr. THOMAS. How many cases did they handle?

Mr. DONATY. 172 in fiscal 1963.

Mr. THOMAS. That is 22 per hearing examiner per year; is that it?

Mr. CARY. Yes.

Mr. THOMAS. How much time is required for each one of cases? The cases are rather short in duration; are they not? You do not have any long-winded one that will go for 10 days or 2 or 3 weeks; do you?

Mr. COHEN. Yes.

Mr. CARY. Very much longer than that, as a matter of fact.

Mr. DONATY. I think Mr. Brown can address himself to this from his regional area—a case in Pittsburgh. An administrative proceeding started up there and they were up there three 3 weeks. Subsequently, the hearing was transferred to Washington, D.C., for a number of reasons.

Mr. THOMAS. What was the nature of the case, Mr. Brown?

Mr. BROWN. It was a fraud case against a broker-dealer for selling securities by means of fraudulent representations.

Mr. THOMAS. Was there a criminal action pending simultaneously with your hearing?

Mr. BROWN. No, sir. The criminal action is under consideration.

Mr. THOMAS. No indictment has been returned?

Mr. BROWN. Not as yet. The criminal reference report is in the process of being prepared.

CRIMINAL PROCEEDINGS

Mr. THOMAS. What is the usual practice of the Commission with reference to proceedings with the U.S. attorney when you have obvious cases or cases that you think are obvious, on suspension or revocation? Which precedes? Do you go to the criminal side of the docket first in the U.S. district court before you remove, or do you remove and then go to the criminal docket?

Mr. CARY. I will ask Mr. Loomis to speak to that.

Mr. LOOMIS. It is more usual that we have the administrative proceeding first and the criminal case second. If we have completed a criminal case, the person is apt to be out of the securities business anyhow and, hopefully, in jail. We start the administrative pro- and then get the wheel turning for criminal prosecution. That is the usual course.

Mr. WYMAN. Do you not run into a lot of fifth amendment in your administrative proceedings when a criminal proceeding is pending?

Mr. LOOMIS. Usually the criminal proceeding is not pending in the sense that an indictment has been returned at the time when the administrative proceeding goes on. We do, however, I think, have an increasing tendency for people to take the fifth amendment in our proceedings.

Mr. COHEN. This is almost inevitable.

Mr. THOMAS. Gentlemen, let us get some lunch and will you come back at 1:30?

AFTERNOON SESSION

Mr. EVINS. The committee will come to order. Would you please present the balance of your statement, Mr. Chairman?

Mr. CARY. All right, sir.

I think I have completed the presentation of the reasons for and the need behind the 60 positions for which we are asking.

STATUS OF REGISTRATION STATEMENTS

The next item is largely informational, but since it is the largest division in our organization, the Corporation Finance Division, with Mr. Worthy, the Director, I thought I would report on the status of that.

We are not asking for any additional positions in this area. In the current year the Division of Corporation Finance has been allocated 287 positions as compared with 320 allocated in 1963.

The reduction of 33 positions reflects primarily a downward adjustment in the number of registration statements previously estimated to be filed, thus less filings to be examined than originally anticipated.

Of the 33 positions, 20 were reallocated to the regional offices for the investment company inspection program. That constitutes the primary group from which we derived the strength to do the investigations we have had, and 13 positions were abolished.

This reallocation is, of course, a calculated risk because the Commission may be confronted with a sudden increase in filings as we experienced in 1961–62.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. CARY. 287 positions will be required to reduce further the time in processing registration statements. We are now down to 21 days from a period of 57 days a couple years ago. These positions are needed, also, to reduce our existing backlog of annual and periodic reports.

FUTURE REDUCTION IN PERSONNEL

Mr. THOMAS. We think you are doing a fine job. You have to have some additional personnel to do this exploratory work which you are going to undertake. However, after you get the pattern laid would it not be possible for you to go back and reduce the number of personnel by 100 to 150 or perhaps 200 people? That is what you have gained in the last 3 or 4 years, in the little over 3 years you have been Chairman.

Mr. CARY. I hope we shall. I do believe, for example, in the field of Corporation Finance, which I have just been addressing myself to, you will notice we cut back 33 positions in that area in the last year.

I do think we need 287 for this forthcoming year, but if the registration statements do not increase in number I would assume we could cut back further.

In the investment company field we will get stabilized. After all, once you get down to every 2 years, something like that, you have reached a point which I would regard as practicable. At this stage we would hope to, and that is as far as I can go in making any assurances.

Mr. EVINS. Mr. Chairman, do you want to place the balance of your statement in the record and highlight it?

Mr. CARY. I would appreciate it.

(The material referred to follows:)

RENTAL OF A COMPUTER

Another item I wish to discuss is the additional amount of $53,000 for rental of a computer to be installed in January 1965. On an annual basis, the equipment will cost approximately $142,000 and will be rented on a lease-purchase agreement with option to purchase within 2 years from date of installation. The annual cost of this equipment would be offset by an annual savings of like amount in personal services pertaining to 25 to 30 positions. The use of a computer will eliminate duplication of data, reduce timelags in name searching and will provide a cross indexing to show associations and relationships of persons, firms, files, and actions.

For the past year, representatives of the National Archives and Records Service of the GSA have conducted a survey of data retrieval needs of the Commission. The survey team has recommended the installation of a computer and supporting equipment for the prime purpose of providing more detailed data pertaining to names of individuals and corporations on an expedited basis. Thus, such data would be centralized in lieu of the existing manual maintenance of about 20 separate indexes, which are finding aids and reference media to the Commission's files. The report of the survey team states also that the growth

rate in filings and changes in Commission rules and legislation will increase the cost of the existing manual data retrieval system by $94,000 in fiscal 1970.

In addition to the GSA survey, the report of the special study of securities markets recommended in particular that the Commission place greater emphasis on the compilation, analyses, and publication of data pertaining to the trading markets. Toward this end, essential economic, statistical, and market analyses could be performed on the computer. Furthermore, the computer would be utilized for personnel management, payroll and leave operations, and other program and administrative areas.

REPORT OF THE SPECIAL STUDY OF SECURITIES MARKETS

The final item I wish to mention is the report of the special study of securities markets. The report was submitted to the Congress last year and is a major contribution to the understanding of the operations and problems of the securities markets. Following 18 months of exhaustive collection and analyses of data, which culminated in approximately 175 recommendations, the report provides a thorough and responsible foundation for action. Furthermore, the very existence of a special study assisted in the creation of a more salutary environment and has resulted in numerous important developments.

The American Stock Exchange has undergone an intensive reorganization. The New York Stock Exchange has commenced a program for improved controls over selling practices and initiated new qualification standards. The National Association of Securities Dealers (NASD) has undertaken a comprehensive revision of its bylaws and rules of fair practice. Broker-dealers have reviewed and altered their systems of supervision. It would go too far to assert that all of these, and other numerous changes, are the direct products of the special study and of the initiating legislation. Yet it would be difficult to deny that their existence has at least produced a reevaluation of existing practices and procedures by the industry, as well as the Commission, which can only be beneficial. In other words, the financial community has taken the opportunity to make its own special study, with valuable consequences.

The report is only a prelude; it discloses many problems whose resolution will require the efforts of the Commission, the exchanges, the NASD and the industry itself.

At the present time, the Commission's efforts are heavily committed to our legislative program (H.R. 6789 and S. 1642), which is under consideration by the Congress. S. 1642 has passed the Senate and hearings are continuing before a subcommittee of the House Committee on Interstate and Foreign Commerce. In the meantime, the staff of the Commission is preparing rulemaking proposals for presentation to the Commission and to the industry.

Gentlemen, this concludes my statement, and with the assistance of my fellow Commissioners and our staff members, we will answer any questions you may have.

Mr. CARY. The next item I will just highlight as you suggested. I would like to mention that what we have in mind is to ask for $95,500 for rental of office space: $31,000 of it will go to take care of the 60 additional positions and the balance is to take care of an existing space deficiency in Washington, D.C.

As I mentioned earlier in this hearing, we are in third-class condition space so far as the GSA is concerned, but at the same time while having these low class accommodations we also have very limited space available, and we do not have enough space to meet our requirements of 171,300 square feet.

Mr. EVINS. Could you supply the rental costs of the SEC over the past 5 years for the record?

Mr. CARY. Yes, sir. We shall supply that for the record.

Mr. EVINS. You might also include a breakdown by offices if you have it.

(The information supplied follows:)

Summary of estimated costs of general purpose commercial space rental paid by GSA

	1960	1961	1962	1963	1964
Outside Washington, D.C.	$263,351	$278,464	$341,007	$372,288	$376,141
Inside Washington, D.C.	20,956	20,956	39,456	44,999	51,000
Total	284,307	299,420	[1] 380,463	[1] 417,287	[1] 427,141

[1] Includes funds transferred to GSA for fiscal years 1962 to 1964. (See exhibit B.)

Estimated cost of general purpose commercial space inside Washington, D.C.—Rental cost paid by GSA

	1960	1961	1962	1963	1064
425 2d St. (main building)	(1)	(1)	(1)	(1)	(1)
131 Indiana Ave.	(1)	(1)	(1)	(1)	(1)
310 6th St.	$20,956	$20,956	$20,956	$21,374	$24,000
212-216 Indiana Ave.				23,625	27,000
Tariff Building	(2)	(2)	[3] 18,000	(2)	(2)
Total	20,956	20,956	39,456	44,999	51,000

[1] Government-owned space—temporary building.
[2] Government-owned space—permanent building.
[3] The sum of $18,500 in fiscal 1962 was transferred to GSA because the Foreign Claims Commission was displaced from the Tariff Building to commercial leased space because of the special study of securities markets.

Estimated cost of general-purpose commercial space for the field offices of the Commission—Rental cost paid by GSA outside Washington, D.C.

Location	196	1961	1962	1963	1964
Atlanta	$8,100	$8,955	$11,212	$11,212	$11,212
Boston	(1)	(1)	(1)	(1)	(1)
Chicago	46,489	46,489	46,489	57,104	57,532
Cleveland	6,620	6,620	6,547	9,066	9,636
Denver	20,257	23,323	26,254	27,205	27,957
Detroit	(1)	(1)	(1)	750	3,000
Fort Worth	(1)	(1)	(1)	(1)	(1)
Houston	1,620	1,620	1,728	(1)	(1)
Los Angeles	13,596	16,399	17,965	18,849	19,399
Miami	2,700	2,462	2,203	3,078	[2] 2,160
New York	135,104	135,104	189,916	201,680	201,680
Salt Lake City	2,985	3,033	3,588	3,868	4,147
San Francisco	13,930	15,772	16,781	20,492	[3] 17,358
Seattle	10,030	16,767	17,524	18,984	22,060
St. Louis	1,920	1,920	800	(1)	(1)
St. Paul	(1)	(1)	(1)	(1)	(1)
Total	263,351	278,464	[4] 341,007	[4] 372,288	[4] 376,141

[1] Located in a Federal office building.
[2] Miami branch office moved into Federal office building, Feb. 1, 1964.
[3] San Francisco regional office will move into Federal office building on or about May 1, 1964.
[4] Includes $19,532; $21,625; and $3,465 transferred to GSA by the Commission for fiscal years 1962, 1963, and 1964, respectively.

STATEMENT OF REIMBURSABLE COSTS TO GSA FOR ADDITIONAL OFFICE SPACE

Effective with fiscal year 1962, agencies are required to budget initially (first year) for estimated rental cost of all additional space necessitated by new or expanded activities. When the space has been secured and the cost thereof is known, an appropriation transfer is made from the agency appropriation to an appropriation of the general Services Administration (GSA). This existing procedure applies to the Securities and Exchange Commission. Thereafter, the GSA is responsible for obtaining funds for such additional space.

Prior to fiscal 1962, additional space was provided by GSA without cost to the Commission. There follows a tabulation of funds transferred to GSA by the Commission for fiscal years 1962 to 1964, inclusive, pertaining to the cost of additional space for the first year or part thereof.

	Reimbursable costs to GSA		
	Inside Washington, D.C.	Outside Washington, D.C.	Total
Fiscal year:			
1960			
1961			
1962	$18,500	$19,532	$38,032
1963	21,374	21,625	42,999
1964		3,465	3,465
Total	39,874	44,622	84,496

Mr. DONATY. Our rental costs are reimbursable to GSA, who in turn pays the lessor.

Mr. THOMAS. Not all of them. You are not a Government corporation, are you?

Mr. DONATY. No, sir. GSA obtains the commercial space for us. We pay GSA. GSA, in turn, pays the owner.

Mr. THOMAS. You do not pay GSA all your rental bill every year?

Mr. DONATY. No, sir, we do not.

Mr. THOMAS. All right.

RENTAL OF COMPUTER

Mr. CARY. The next point I would discuss, and I will discuss it briefly, and we have Mr. Donaty and Mr. Becker here if you wish to discuss it in detail, is $53,000 for rental of a computer. I believe you referred to this in the hearings last year, Mr. Chairman.

On an annual basis the equipment will cost $142,000 and will be rented on a lease-purchase agreement with an option to purchase 2 years after date of installation.

We believe there will be an annual saving of like amount in personal services pertaining to 25 to 30 positions.

The use of the computer will eliminate duplications of data, reduce the time lags in name searching, provide a cross indexing to show associations and relationships of persons, firms, and files. It will serve a variety of other purposes, including statistical and analytical work for us, and it will also handle personnel management, payroll, and leave operations. We look forward to it. If it is propertly programed, and we are training people at the moment, we look for it to be fully utilized and of great value to the SEC.

I might say the industry, with which we are dealing, is getting so heavily automated that I think some automatic equipment is needed for us in order to keep in step with the kind of work they are doing.

Finally we have——

Mr. THOMAS. Twenty-five employees?

Mr. CARY. That was the estimate Mr. Donaty made.

Mr. THOMAS. Using round figures how much is that a year?

Dr. DONATY. About $200,000.

Mr. THOMAS. It is more than that—it is about $220,000. What is the total cost of the machine?

Mr. DONATY. Total cost for the machine is approximately $500,000. I might point out at this time we are presently establishing the necessary procedures——

Mr. THOMAS. What does it cost you to maintain a year?

Mr. DONATY. Around $7,000 a year.

Mr. THOMAS. It pays for itself in about two and a half years, does it not?

Mr. JONAS. It has not always turned out that we have had these manpower savings when these computers are bought. We are watching this with keen interest to see whether you knock off 25 to 30 people next year.

Mr. THOMAS. What is the general pattern—adding five?

Mr. JONAS. That is right.

Mr. THOMAS. Go ahead, Mr. Evins.

Mr. EVINS. Proceed, Mr. Chairman.

AFTERMATH OF THE SPECIAL STUDY

Mr. CARY. The final item I wish to mention is the Report of the Special Study of the Securities Markets that I referred to earlier. This report was submitted to the Congress last year and is a major contribution to the understanding of the operations and problems of the securities markets.

Following 18 months of collection of this data which culminated in 175 recommendations, the report provides a thorough and responsible foundation for action.

Furthermore, the very existence of a special study assisted in the creation of a more salutary environment and has resulted in numerous important developments.

The American Stock Exchange has undergone an intensive reorganization. The New York Stock Exchange has commenced a program for improved controls over sellings practices and initiated new qualification standards.

The National Association of Securities Dealers has undertaken comprehensive revision of its bylaws and rules of fair practice. Broker-dealers have reviewed and altered their systems of supervision.

Not all of these are direct products of our special study and the initiating legislation, but I like to think they contributed substantially to it.

In other words, as we see it, the financial community has taken the opportunity to make its own special study with valuable consequences.

The report is only a prelude. It discloses many problems. The resolution will require the efforts of the Commission, the exchanges and the NASD itself.

At the present time the Commission's efforts are heavily committed to the legislative program (H.R. 6789 and S. 1642) which is under consideration by the Congress.

S. 1642 has passed the Senate and hearings are continuing before a subcommittee of the House Committee on Interstate and Foreign Commerce. In the meantime we are preparaing rulemaking proposals.

I might say in closing that tomorrow I will be in front of Mr. Harris' committee on the last phase of this bill which passed the Senate and which is now before the House, and I hope it will be before the full House before the next 4 months are over, before the summer comes.

Mr. EVINS. Thank you, Mr. Chairman, for a very fine statement. It is very concise and very much to the point.

COMMISSION STAFF GROWTH

I like to make this little observation. Echoing what the chairman said, we think you do a tremendous job. It always seems to resolve around coming back for more appropriations and more legislation.

My thought is that the Congress has armed you with this duty and responsibility and we want to give you funds to do the job. I hope you will continue vigorously the authority which you already have.

Mr. CARY. We are trying to exercise existing authority. This legislation we are asking for is, as I say, primarily increasing self-regulation.

Mr. JONAS. I agree with the chairman and Mr. Evins. I think the Commission is serving a very useful purpose. It has to be properly financed to do the job.

However, I do not know of any agency of the Government growing any faster than yours in the last 10 or 15 years. You have grown from 1,000 employees 5 years ago to 1,528. That is quite a heavy increase. You have gone up from $7 million 5 years ago to $15 million.

While the country is growing and the activitites in the securities market are increasing, I don't know whether they are increasing that fast.

We are concerned about that. We had assumed that you would come in here asking for a little less money than you did last year. With all this talk about economy it does not seem to be catching on. I am really disappointed that you have asked for 60 additional employees. I thought we would cut off about 60.

Mr. CARY. I don't know f I can fully answer your point, Mr. Jonas. If I may speak as somebody who has been in this field from another side before I came here, it has been often believed and said that the regulatory agencies have been really understaffed to perform the big jobs they have been given. I would think that we during this period have had an opportunity to reexamine what our job is. We had it through this special study. I think it demonstrated the need in the field of trading and markets for further activity.

I do feel that the investment company field to which I referred earlier has really never been explored adequately and never been inspected. That is really the point. As a consequence I do feel now that with this amount we are asking we can responsibly do the several jobs we have.

It may be we are not totally efficient and you are absolutely right, sir, that we have increased substantially since 1960 which was the year in which we had 1,000 employees, as you mentioned, but I do feel we have done a more extensive and intensive job in administration along a variety of fronts. That is the only justification I can give for the expenditure.

Mr. JONAS. We have been concerned over protecting the general public against sharpies. In view of the experience on the commodity exchange in New York, you should think about protecting some of the banks.

Mr. CARY. I am afraid the Comptroller of the Currency might have another fight with me.

Mr. JONAS. Does he say you are not concerned with that?

Mr. CARY. As the chairman indicated this morning, he already has said we are trying to get our foot in the door through the regulation of the so-called managing agency accounts that the banks are considering going into at the present time.

We simply have no jurisdiction over the banks.

Mr. JONAS. Do you have jurisdiction over the commodity exchanges?

Mr. CARY. No, sir; but we have this jurisdiction, and this is something we have to face. We will be before Mr. Harris tomorrow on this and I am sure this question will come up. We shall have to face the fact that even though we have no jurisdiction over the commodities market as such, we should establish higher requirements, let us say margin requirements and the like, with respect to brokers who are doing a commodities business as well as a securities business. That is the weakness perhaps, at least one of the weaknesses, which was developed in the case.

Mr. THOMAS. Who does have regulation over the commodities market?

Mr. CARY. Department of Agriculture. We do not have authority over it.

Mr. JONAS. I suppose there is not as much activity in the cotton exchange as there was 15, 20, and 25 years ago when everybody in the textile busines had to sell or buy cotton on the exchange.

Mr. CARY. I think that is right.

Mr. JONAS. But the other exchanges are quite active.

Mr. CARY. The New York Produce Exchange and the Chicago Board of Trade are both very active, indeed.

Mr. JONAS. Why were those things not included in your act? Do you know?

Mr. CARY. I assume ours was exclusively focused upon securities and that is the basic reason, although you are quite right that broker-dealers handle both.

Mr. EVINS. You have spelled out to this committee quite an extensive legislative recommendation for broadening your authority. Is this bill specific or comprehensive?

Mr. CARY. No great authority, just two points. Greater controls over qualifications of the persons entering the business, and secondly we are asking for disclosure of information to the public, along the lines now applicable to listed securities, for securities of companies in which there is a large public interest, where there are more than 750 shareholders and assets of $1 million or more.

STATUTORY AUTHORITY

Mr. EVINS. Pages 1, 2, and 3 include the statutory authority of the Commission. It might be well to include those pages in the record.

(The pages follow:)

STATUTORY AUTHORITY

The Securities and Exchange Commission is an independent, quasi-judicial agency. It administers: (1) Securities Act of 1933; (2) Securities Exchange Act of 1934; (3) Public Utility Holding Company Act of 1935; (4) Trust Indenture Act of 1939; (5) Investment Company Act of 1940; and (6) the Investment Advisers Act of 1940. By terms of chapter X of the National Bankruptcy Act, as amended, the Commission also serves as adviser to Federal courts in corporate reorganization proceedings.

PURPOSE

The general objective of the statutes administered by the Commission is to protect the interests of the public and investors by preventing fraud, deceit, and manipulation in the sale and trading of securities, by enforcing statutes requiring high standards of conduct in financial reporting and other activities of issuers of securities and brokers and dealers, by regulating public utility holding company systems and investment companies, and by rendering assistance to courts in corporate reorganizations.

DUTIES

The primary duties of the Commission under the above statutes are:

1. *Securities Act of 1933.*—Administration of the law which, with respect to securities sold in interstate commerce or by use of the mails, has two basic objectives: (*a*) To provide investors with financial and other information concerning new issues of securities or outstanding issues owned by controlling persons offered for public sale; and (*b*) to prohibit misrepresentation, deceit, and other fraudulent acts and practices in the sale of securities generally.

2. *Securities Exchange Act of 1934.*—This act requires the filing of registration applications and annual and other reports with national securities exchanges and the Commission by companies whose securities are listed on the exchanges. These filings must contain financial and other data prescribed by the Commission for the information of the investing public.

The act also requires registration with the Commission of national securities exchanges, brokers, and dealers engaged in an over-the-counter securities business, and national association of such dealers. Their activities and practices are subject to regulation and disciplinary action by the Commission to prevent fraud in the purchase or sale of securities, to prevent manipulative practices in the over-the-counter and exchange markets, and to insure maintenance of just and equitable principles of trade for the protection of investors and the public.

The act also subjects to Commission regulation short sales, stabilizing, floor trading, the activities of specialists and odd-lot dealers, and such matters as excessive trading by exchange members. It further provides for control of the use of credit to finance the purchase of securities listed and registered on exchanges through establishment of minimum margin requirements by the Board of Governors of the Federal Reserve System.

3. *Public Utility Holding Company Act of 1935.*—This act provides three areas for regulation of holding companies controlling electric and gas utilities: (1) Physical integration of public utility and related properties of holding company systems, and simplification of financial and corporate structures of those systems; (2) regulation of financing operations, acquisitions and dispositions of securities and properties, accounting practices, and servicing arrangements of holding company systems; and (3) exemptions of certain companies from provisions of the act and regulation of the rights of persons affiliated with a public utility to acquire securities of other public utilities.

4. *Trust Indenture Act of 1939.*—The rights and interest of purchasers of debt securities issued under mortgage indentures and sold publicly are safeguarded through provisions of this act requiring elimination of exculpatory clauses from and inclusion of protective provisions in indentures. The act also requires that the indenture trustee, who, as a representative of the debt holders, has the duty to see that the covenants in the indenture are adhered to, shall be independent and free of any interests which might conflict with the proper exercise of his duties.

5. *Investment Company Act of 1940.*—This act provides for the registration with the Commission of investment companies, and subjects their activities to regulation in accordance with prescribed standards in the interest of protecting investors.

6. *Investment Advisers Act of 1940.*—Persons who, for compensation, engage in the business of advising others with respect to their security transactions must register with the Commission.

In addition to other provisions, amendments to this act by the 86th Congress expand the authority of the Commission as follows: (1) Empowers the Commission to require investment advisers to keep books and records in accordance with rules to be prescribed by the Commission; (2) provides for regular and periodic inspections of registered investment advisers; (3) expands the power for denial or revocation of registration of investment advisers; and (4) empowers the Commission to issue rules and regulations, which would prohibit fraudulent, deceptive and manipulative practices by investment advisers.

7. *National Bankruptcy Act—chapter X.*—To aid the Federal courts in the administration of the affairs of debtor corporations being reorganized under chapter X, the Commission participates actively as a party to the proceedings in those cases in which a substantial public investor interest is involved, and files advisory reports on reorganization plans in appropriate cases. The Commission also may appear in chapter XI cases to challenge whether the relief sought may properly be granted under the provisions of that chapter.

The Commission is assisted by a staff of professional employees, including lawyers, accountants, engineers, security analysts, and examiners; and by administrative and clerical employees. The staff is organized into separate divisions and offices, including 9 regional offices, each under the charge of a division director or office head, and each of which is responsible for the performance of certain functions in the administration of the laws assigned to the Commission.

The table on page 4 shows the additional funds and positions requested for fiscal year 1965 over 1964. The table on page 5 shows, by divisions and offices the actual obligations and positions for 1963, estimated obligations and positions for 1964 and 1965, and changes proposed in 1965. Similar data are furnished for all other items of "Other expenses."

ADDITIONAL FUNDS REQUESTED IN 1965

Mr. EVINS. We shall insert page 4, appropriation for 1964, the number of positions, and the total request for 1965.

(The page follows:)

Summary of additional funds requested for fiscal year 1965

Fiscal year 1964	Positions	Funds
Appropriation for fiscal year 1964	1,468	$13,937,500
Increases, fiscal year 1965:		
A. Personal services:		
Additional positions	[1] 60	385,000
Salary step increases		262,500
Cost of pay increases in 1965 over 1964		290,000
Subtotal, personal services		937,500
B. Other expenses:		
Personnel benefits		72,000
Travel		48,000
Other costs		230,000
Subtotal, other expenses		350,000
Total requested appropriation for fiscal year 1965	1,528	15,225,000

[1] Includes 47 positions for the regional offices.

Mr. EVINS. This is quite an extensive chart on page 5, but too much detail and we shall not insert it.

OFFICE OF PROGRAM PLANNING

We shall turn to the Office of Program Planning. Insert in the record pages 8 and 9.

(The pages follow:)

OFFICE OF PROGRAM PLANNING

FUNCTIONAL STATEMENT

The principal function of this Office is to assist the Commission in establishing policy by analyzing legal, economic, and industrial developments affecting the regulation of the securities markets. This Office recommends to the Commission the institution or modification of programs commensurate with the needs and trends of the securities markets.

During fiscal years 1964 and 1965, the Office will assist and advise the Commission in the implementation of the recommendations of the special study of securities markets. This work involves, in coordination with other Commission offices and divisions, changes in the rules, regulations, and policies of the Commssion and self-regulatory agencies; recommendations for legislation; proposals for modifications of industry practices; and procedures for gathering and analyzing economic data about the securities markets.

It is anticipated that, as the recommendations of the special study are implemented, the work of this Office will gradually shift in emphasis to the principal functions described above.

Justification

Fiscal year	Personal services	
	Cost	Positions
1964	$190,000	19
Increase	30,200	2
Total, 1965	220,200	21

The increase of $30,200 represents the cost ($20,200) of two additional positions (economists) and $10,000 for mandatory pay increases.

Personal services data sheet, Office of Program Planning

Title	Grade	Program, 1964		1965 increase	Estimate, 1965	
		Number	Annual salary		Number	Annual salary
Director	GS-17	1	$18,512		1	$19,011
Special counsel	GS-16	1	16,515		1	17,014
Economist	GS-15	1	15,683		1	16,182
Attorney	GS-15	3	47,548		3	49,066
Economist	GS-13	1	11,731	1	2	23,857
Attorney	GS-13	3	37,897		3	38,667
Economist	GS-11	1	8,424	1	2	17,118
Economist	GS-9	1	7,030		1	7,280
Attorney	GS-9	1	7,030		1	7,280
Various	GS-8 and under	6	33,653		6	34,007
Total permanent		19	204,023	2	21	229,482
Less lapse			14,023			9,282
Cost			190,000			220,200

Mr. EVINS. You have a total of 19 positions; you are asking for 2 more economists?

Mr. CARY. That is right.

Mr. EVINS. Do you really think you need an additional brain trust staff in addition to the Commission itself for your planning?

Mr. CARY. Yes, sir; this is the area carrying out that special study and it has to also analyze market conditions and situations carrying on from the information we had available through the study.

Office of Hearing Examiners

Mr. Evins. Turning to the Office of Hearing Examiners, pages 12 and 13 should be inserted, Mr. Reporter.

(The pages follow:)

Office of Hearing Examiners

FUNCTIONAL STATEMENT

The hearing examiners preside in a quasi-judicial capacity over public and private hearings ordered by the Commission under the various statutes it administers, which are held throughout the United States. In the conduct of such proceedings, they subpena witnesses; administer oaths; take testimony; rule on the admissibility of evidence, offers of proof and other disputed matters; rule upon motions and procedural requests; and take other and related actions incident to the proper development of the evidentiary record while protecting the rights of all parties to the action.

At the conclusion of the hearings, the hearing examiners prepare recommended decisions, as may be required, based upon the evidence in the record, the arguments and contentions made, and the application of law and regulations to the facts, in aid of the Commission's ultimate resolution of the factual and legal issues involved.

Justification

Fiscal year	Personal services	
	Cost	Positions
1964	$149,000	12
Increase	23,700	1
Total, 1965	172,700	13

One additional hearing examiner will be required in 1965 over 1964 to provide for the expeditious disposal of the increased number of administrative hearings resulting from the accelerated enforcement program of the Commission and to reduce the number of hearings pending at the close of fiscal 1964.

	Actual, 1963	Estimate, 1964	Estimate, 1965
Administrative proceedings:			
Pending, beginning of year	90	83	78
Authorized, during year	165	175	185
Subtotal	255	258	263
Disposed of by Office of Hearing Examiners	172	180	210
Pending, end of year	83	78	53

The increase of $23,700 in 1965 represents the cost ($15,700) of the additional hearing examiner and $8,000 for mandatory pay increases.

Mr. Evins. You said this morning you had eight. This looks like 13 positions. In 1965, it is increased to 13?

Mr. Donaty. We have eight hearing examiners in 1964 and four stenographic personnel. One additional hearing examiner is requested for 1965.

Mr. Evins. How about the backlog? You told us how many they are disposing of. How many cases are pending before the hearing examiners at the present time?

Mr. Donaty. As of December 31, we had 72 pending, sir.

Mr. EVINS. Most of your work is settled before it gets to the hearing examiner; I assume?

Mr. CARY. A great deal of our work is handled administratively. For instance, all the registration work is handled that way, except when we get into a stop order proceeding.

Mr. EVINS. Page 16 shows you have 15 personnel in "Opinion writing." The increase is because of the pay act?

Mr. CARY. Yes.

OFFICE OF THE GENERAL COUNSEL

Mr. EVINS. The Office of the General Counsel is next. Insert pages 17 through 20.

(The pages follow:)

OFFICE OF THE GENERAL COUNSEL

FUNCTIONAL STATEMENT

The General Counsel is the Commission's chief legal officer and counsel on overall legal policy, litigation, legislation, rulemaking, and in the interpretation of the several statutes administered by the Commission. In addition, the General Counsel exercises joint responsibility with the Director, Office of Opinion Writing, in dealing with general problems arising under the Administrative Procedure Act as well as the adoption or revision of the rules of practice.

Justification

Fiscal year	Personal services	
	Cost	Positions
1964	$277,000	32
Increase	12,400	
Total, 1965	289,400	32

For 1965, no additional positions are requested in 1965 over 1964. The increase of $12,400 represents the cost of mandatory pay increases.

Civil and appellate litigation

One of the most important phases of the work of the General Counsel's Office is the conduct of appellate litigation, which includes appeals from Commission decisions, appeals in injunction cases and appeals in chapter X proceedings. Assistance is rendered also to the Department of Justice in the preparation of appellate briefs in criminal cases arising from criminal references. The civil appellate proceedings are briefed and argued by the staff of this Office and usually involve complicated factual situations and difficult legal problems requiring the expenditure of very large amounts of time.

In addition to the preparation of briefs and the presentation of oral arguments in the Supreme Court and in the various U.S. courts of appeals, this Office prepares also briefs and occasionally participates in oral argument in private law suits as amicus curiae when the issues presented involve questions of such importance under the Federal securities statutes as to warrant participation by the Commission.

This Office is responsible for defending the Commission in actions instituted against it, including suits to enjoin Commission hearings, administrative proceedings, or investigations.

This Office also supervises all civil litigation in the U.S. district courts in the enforcement of the securities laws. As a general rule, trials at the U.S. district court level are conducted by attorneys in the Commission's regional offices working under the supervisory direction of the Office of the General Counsel. However, in important or novel cases, particularly in the proxy and investment company field, personnel of the Office of the General Counsel are assigned as trial

counsel in district court matters. The frequency of such direct involvement has been steadily increasing.

During fiscal 1963, the Commission filed 110 suits for injunctions in the U.S. district courts. In addition, there were pending 19 appeals involving petitions for review of Commission orders. There were also pending 14 amicus curiae proceedings in which the Commission participated, 14 appeals in reorganization matters, and 14 appeals in injunction cases.

Criminal reference reports

Although the function of reviewing and supervising criminal reference reports to the Department of Justice is a responsibility of the Division of Trading and Markets as part of its enforcement activities, the General Counsel still retains ultimate responsibility of all criminal matters referred to the Department of Justice.

During fiscal 1963, the General Counsel referred to the Department of Justice 49 criminal reference reports. The scope and complexity of these criminal matters is significantly increasing.

Legislative matters

The General Counsel is the Commission's primary legal consultant and counsel on legislation and is responsible for the preparation of material submitted by the Commission to the committees of the Congress, and advises and assists the Commission in its hearings and appearances before the Congress. During fiscal 1963, comments were requested by the congressional committees or were referred by the Bureau of the Budget on 50 legislative proposals. Legislative proposals resulting from "Report of the Special Study of Securities Markets" have caused a substantial increase in this activity, and it is anticipated that it will continue during fiscal 1965.

Other functions

The Office of the General Counsel is constantly required to render opinions, either written or oral depending upon the magnitude of the problem, in numerous legal matters that are presented by the operating divisions, by the regional offices, by the Commission itself and by attorneys and other members of the public. It is responsible also for the conduct of administrative proceedings relating to possible disqualification of attorneys, accountants and other professional persons from practice before the Commission. Such matters may involve extensive investigation and travel and result in vigorously contested proceedings. The Office will also be called upon to advise the Commission with respect to numerous rulemaking proposals and similar matters attributable to the "Report of the Special Study of Securities Markets."

Mr. EVINS. Where is your General Counsel?

Mr. CARY. Mr. Loomis.

Mr. EVINS. Mr. Loomis, besides the big investigation in New York what is your principal concern at the Commission at the present time?

Mr. LOOMIS. The Office of the General Counsel is particularly concerned with court cases, mostly appellate cases.

Mr. EVINS. How many have you in the courts at this time, speaking of SEC cases?

Mr. LOOMIS. I do not have total number of cases because many are handled in the regional office.

Mr. EVINS. The General Counsel should know how many cases he has in court. How many in round numbers?

Mr. DONATY. As of December 31, we had approximately 115 pending in civil action.

Mr. THOMAS. Filed; 110 suits for injunction in the U.S. district courts.

Mr. EVINS. Page 21 should be inserted concerning the personnel in the Office of the General Counsel.

(The page follows:)

Personal services data sheet, Office of General Counsel

Title	Grade	Program, 1964		1965 increase	Estimate, 1965	
		Number	Annual salary		Number	Annual salary
General Counsel	GS-18	1	$20,010		1	$20,010
Associate General Counsel	GS-16	2	34,528		2	35,527
Assistant General Counsel	GS-15	1	16,702		1	17,222
Attorney	GS-14	2	28,142		2	29,058
Attorney	GS-13	8	95,408		8	98,528
Attorney	GS-12	2	19,968		2	20,634
Attorney	GS-11	4	33,966		4	35,338
Various	GS-8 and under	12	65,833		12	67,642
Total permanent		32	314,557		32	323,959
Less: Lapse			37,557			34,559
Cost			277,000			289,400

Mr. EVINS. There are no position increases recommended.

OFFICE OF OPINION WRITING

Turn to the Office of Opinion Writing and insert pages 15 and 16 in the record.

(The pages follow:)

OFFICE OF OPINION WRITING

FUNCTIONAL STATEMENT

The principal function of this Office is to assist the Commission in the preparation of findings, opinions, and orders in cases, which come before the Commission for decision in the exercise of its quasi-judicial functions. Further, this Office is responsible for the preparation of the annual report of the Commission to the Congress, and exercises joint responsibility with the Office of General Counsel in dealing with general problems arising under the Administrative Procedure Act, including the adoption or revision of the rules of practice.

Justification

Fiscal year	Personal services	
	Cost	Positions
1964	$148,000	15
Increase	7,000	
1965	155,000	15

For fiscal 1965, no additional positions are requested for this Office. The increase of $7,000 in 1965 over 1964 represents the cost of mandatory pay increases.

During fiscal 1963, this Office prepared drafts for the Commission's use in disposing of 173 matters of an adjudicatory nature. It is expected that the Office will dispose of 180 matters in 1964 and approximately the same number in 1965.

Personal services data sheet, Office of Opinion Writing

Title	Grade	Program, 1964		1965 increase	Estimate, 1965	
		Number	Annual salary		Number	Annual salary
Director	GS-16	1	$18,013		1	$18,013
Associate Director	GS-15	1	17,222		1	17,222
Assistant Director	GS-15	1	17,222		1	17,742
Attorney	GS-14	1	13,624		1	14,082
Do	GS-13	2	23,857		2	24,627
Do	GS-12	2	20,967		2	21,632
Do	GS-11	3	25,542		3	26,374
Do	GS-9	1	7,030		1	7,030
Various	GS-8 and under	3	18,678		3	18,678
Total permanent		15	162,155		15	165,400
Less: lapse			14,155			10,400
Cost			148,000			155,000

Mr. JONAS. On page 16 I understand why you need five attorneys writing opinions, and a Director in charge of the Opinion Writing Section, but why do you need an Associate and Assistant Director? Couldn't you knock off two of those high-paying positions?

Mr. CARY. This is some of the most technical and highly qualified work in the Commission.

Mr. JONAS. I understand that. That is the opinion writing. I am referring to the direction. You have three directors directing five lawyers.

Mr. COHEN. They all write opinions, including the Director.

Mr. JONAS. We had some argument about that a few years ago.

Mr. COHEN. They are all working people.

Mr. CARY. They are not all managers.

Mr. JONAS. Not just supervisors?

Mr. COHEN. All opinion writers.

Mr. JONAS. You give them these extra titles to give them higher pay?

Mr. COHEN. They are a little more experienced, have been there longer, and have greater responsibility.

Mr. JONAS. They are doing work other than just assigning opinion writing?

Mr. COHEN. Yes; they are writing opinions.

They handle the most difficult ones.

Mr. CARY. There has been quite a turnover in this field and we are fortunate to have several who have stayed with us and given us some continuity.

Mr. JONAS. It looked like a lot of chiefs for five Indians.

Mr. CARY. These are men who have been with us in some cases 10 and 20 years.

DIVISION OF CORPORATION FINANCE

Mr. EVINS. Division of Corporation Finance, one of the big divisions of the Commission. This sets forth their responsibilities on pages 25 and 26. Insert these pages in the record.

(The pages follow:)

Division of Corporation Finance

FUNCTIONAL STATEMENT

The Division of Corporation Finance assists the Commission in the discharge of those responsibilities relating to the (1) prevention of fraud in the public offering of new securities; (2) establishing and requiring adherence to standards of adequacy and fairness in economic and financial reporting by companies, underwriters and others with respect to securities traded on national exchanges or offered for public sale; (3) establishing, in collaboration with the Office of the Chief Accountant and in cooperation with the accounting profession, sound standards of auditing and accounting procedures and practices; (4) establishing and requiring, with respect to securities traded on national securities exchanges and to certain other securities, adherence to standards of fair disclosure and fair dealing in the solicitation of proxies of security holders for the election of directors or the accomplishment of other corporate actions, such as mergers, consolidations, reorganizations, recapitalizations, acquisition or disposition of assets; and (5) the enforcement of statutory provisions requiring that indentures governing debt securities contain certain provisions for the protection of the public security holder, including high standards of conduct on the part of indenture trustees.

The Division also enforces the financial reporting, proxy solicitation and disclosure provisions applicable to the various types of investment companies subject to the Investment Company Act of 1940 and reviews sales practices in the public distribution of securities and sales literature used for that purpose. In addition, the Division has responsibility for rendering interpretations to issuers, underwriters and their representatives and to the public as to the meaning and application of the statutes it administers, and the rules and regulations thereunder.

Justification

	Personal services	
	Cost	Positions
Fiscal year:		
1964	$2,509,000	287
Increase	136,500	
Total 1965	2,645,500	287

Position increase by organization, 1965 over 1964

	1964	1965	Increase 1965 over 1964
Office of the Director	8	8	
Branches of Corporate Analysis and Examination	192	192	
Branch of Administrative Proceedings and Investigations	11	11	
Branch of Filings and Reports	30	30	
Office of Chief Accountant	9	9	
Office of Chief Counsel	14	14	
Branch of Small Issues	12	12	
Office of Engineering	11	11	
Total	287	287	

For 1965, no additional positions are requested for the various activities of the Division. The additional amount of $136,500 for 1965 represents the cost of mandatory pay increases.

For the current fiscal year (1964), the Division has been allocated 287 positions as compared with 320 allocated in 1963. The reduction of 33 positions in 1964 reflects primarily a downward adjustment in the number of registration statements previously estimated to be filed, thus less filings to be examined than originally anticipated. Of the 33 positions, 20 were reallocated to the regional

offices for the investment company inspection program, 13 positions were abolished.

FILINGS

Mr. EVINS. The proxy cases are set forth on the top of page 34. You indicate the workload has increased, Mr. Chairman?

Mr. CARY. That is right.

Mr. EVINS. Insert the table on page 31 in the record at this point, Mr. Reporter.

(The table follows:)

	Percent of filings	
	New filings	Repeat filings
Fiscal year:		
1963	31.0	69.0
1962	60.0	40.0
1961	52.4	47.6
1960	47.5	52.5
1959	39.0	61.0
1958	28.0	72.0

DIVISION OF TRADING AND MARKETS

Mr. EVINS. Next is Division of Trading and Markets, showing an increase of seven positions. In 1964 the funding was $1,435,000. In 1965 you ask for $1,541,900, and 198 positions.

You have two stenographic positions and five other positions, two financial analysts, one clerk, two additional statisticians, for a net increase of $106,900 including pay increases of $67,200.

Mr. Chairman, you discussed this quite at length this morning but we will ask you again—don't you have some staff you can transfer to substitute for some of these people?

Mr. CARY. Sir, this is all part of the work that is being done in the field of the special study. Even the statistical men being brought in for this purpose will give us information about the market and the activities of the exchanges. This is very necessary for carrying out the regulatory program we have and the oversight we have over those exchanges.

Mr. EVINS. How many statisticians do you have in the Commission?

Mr. DONATY. I would say a dozen.

Mr. EVINS. Twelve statisticians and a computer. Won't you be able to handle the statistical work with that?

Mr. CARY. We hope we will be able to; yes, sir.

Mr. EVINS. Place in the record pages 42 through 45.

(The pages follow:)

DIVISION OF TRADING AND MARKETS

FUNCTIONAL STATEMENT

The Division of Trading and Markets is responsible for: (1) Administering the provisions of the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940 pertaining to the detection and prevention of illegal or fraudulent practices in the marketing and trading of securities both on the exchanges and in the over-the-counter markets; (2) the registration and regulation of

national securities exchanges, national securities associations of brokers and dealers, brokers and dealers, and investment advisers; (3) the compilation and analysis of financial and market statistics; (4) the coordination and supervision of the investigative and other enforcement activities of the regional offices; and (5) the investigation and trial of certain administrative, civil, and criminal cases.

Justification

Fiscal year	Personal services	
	Cost	Positions
1964	$1,435,000	191
Increase	106,900	7
1965	1,541,900	198

Position increase by organization, 1965 over 1964

	1964	1965	Increase, 1965 over 1964
Office of the Director	11	11	
Office of the Chief Counsel	8	8	
Offices of Enforcement, Criminal Reference and Special Proceedings	86	88	2
Branch of Broker-Dealer and Investment-Advisers Registration	20	20	
Office of Regulation	27	30	3
Office of Statistical Studies	39	41	2
Total	191	198	7

For 1965, seven additional positions are requested for the increased workload of the Division. The additional positions are distributed as follows:

(*a*) The addition of two stenographic positions are required so that adequate stenographic assistance is available to professional personnel in the areas of investigations and enforcement.

(*b*) The addition of three positions (two financial analysts and one clerk) in the Office of Regulation are required to meet the expanded responsibilities of supervision and regulation of exchanges and the over-the-counter market.

(*c*) Two additional statisticians are required in the Office of Statistical Studies to provide needed current statistical data relating to the exchanges and the over-the-counter market for the use of the Commission on a continuing basis.

The net increase of $106,900 represents the following items:

(*a*) The sum of $39,700 for the cost of seven additional positions in 1965 over 1964.

(*b*) The sum of $67,200 is required for mandatory pay increases.

1. Investigations and enforcement

	Actual, 1963	Estimate, 1964	Estimate, 1965
1. Investigations including administrative, civil, and criminal proceedings:			
Pending at beginning of year	985	1,084	1,104
Opened during the year	622	600	600
Subtotal	1,607	1,684	1,704
Closed during the year	523	580	615
Pending at end of year	1,084	1,104	1,089
(*a*) Administrative proceedings to deny or revoke registrations of brokers and dealers or to expel from NASD:			
Pending at beginning of year	162	139	164
Opened during the year	97	150	110
Subtotal	259	289	274
Closed during the year	120	125	125
Pending at end of year	139	164	149
(*b*) Administrative prodeecings to deny or revoke registration of investment advisers:			
Pending at beginning of year	11	12	12
Opened during the year	7	10	15
Subtotal	18	22	27
Closed during the year	6	10	15
Pending at end of year	12	12	12
(*c*) Injunction actions:			
Pending at beginning of year	105	121	116
Filed during the year	121	125	125
Subtotal	226	246	241
Disposed of during the year	105	130	135
Pending at end of year	121	116	106
(*d*) Criminal reference reports referred to the Department of Justice:			
Pending at beginning of year	130	140	145
Referred during the year	49	55	55
Subtotal	179	195	200
Disposed of during the year	39	50	65
Pending at end of year	140	145	135
2. Correspondence relating to complaints and investigations	6,504	7,000	7,600
3. Securities violations files:			
Communications received and disposed of	2,778	3,300	3,600
Additional items of information added to files	8,985	10,500	12,000
Number of persons for whom data is on file	78,216	80,000	83,000
Parole reports received	9	15	20
4. Review of broker-dealer inspection reports	1,534	500	500
5. Review of investment adviser inspection reports	219	100	200

For fiscal year 1965, two additional stenographic positions are required so that adequate stenographic assistance is available to professional personnel in the areas of investigations and enforcement.

The Offices of Enforcement, Criminal Reference, and Special Proceedings perform the following functions:

1. Supervise and coordinate the Commission's enforcement activities.

2. Review reports of investigation submitted by regional offices and make appropriate recommendations to the Commission.

3. Assist particular regional offices in the prompt development of cases of importance, especially where the regional office in question is overburdened as a result of temporary variations in its enforcement workload.

4. Provide assistance in the preparation and trial of significant civil and criminal cases and administrative proceedings.

5. Process complaints indicating possible violations of the statutes administered by the Commission.

6. Review pleadings and supporting evidence in actions instituted by the Commission to enjoin violations of the acts and regulations.

Mr. EVINS. Page 57 shows an interesting chart. You have 191 positions in 1964 and you want 198 positions in 1965, $1,541,900.

Questions, gentlemen?

Mr. THOMAS. Insert pages 55 and 56.

(The pages follow:)

Registration of broker-dealers and investment advisers

	Actual, 1963	Estimate, 1964	Estimate, 1965
1. Number of broker-dealers registered at end of year	5,482	5,500	5,700
2. Applications for broker-dealer registration:			
Pending at beginning of year	81	50	50
Filed during year	679	1,100	1,150
Subtotal	760	1,150	1,200
Processed during the year	710	1,100	1,150
Total pending at end of year	50	50	50
3. Terminations	1,067	725	740
4. Amendments to registration of broker-dealers:			
Pending at beginning of year	982	312	212
Filed during year	3,404	3,500	3,600
Subtotal	4,386	3,812	3,812
Processed during the year	4,074	3,600	3,600
Total pending end of year	312	212	212
5. Number of investment advisers registered	1,564	1,650	1,760
6. Applications for registration of investment advisers:			
Pending at beginning of year	16	26	21
Filed during year	285	325	330
Subtotal	301	351	351
Processed during the year	275	330	330
Total pending at end of year	26	21	21
7. Terminations	547	275	275
8. Amendments to registration of investment advisers:			
Pending at beginning of year	373	123	98
Filed during year	886	650	700
Subtotal	1,259	773	798
Processed during year	1,136	675	725
Total pending at end of year	123	98	73

For this activity, the Office of Enforcement requires no additional positions in 1965 over 1964.

Applications for registration as broker-dealers and investment advisers are required to be processed within time limits fixed by the acts. Furthermore, requests for acceleration of effectiveness, granted whenever possible upon request of an applicant, require prompt disposition of applications for registration, in order to permit applicants to open for business without undue delay and expense.

Notwithstanding the decrease in total registrations in 1963, the number of amendments being filed is increasing. Amendments, unless processed promptly, create a potentially dangerous enforcement situation, because persons who may be disqualified or subject to disqualification, would otherwise continue to engage in business as broker-dealers or investment advisers.

Division of Corporate Regulation

Mr. Evins. We will turn to the Division of Corporate Regulation if there are no questions. For this activity you say on page 61 [reading]:

The branches of Investment Company Inspections and Investigations requires no additional personnel in 1965, although 21 additional positions are requested for the field offices to achieve a 2-year inspection cycle in 1965. The 21 positions are justified under the regional offices section of this justification.

Mr. Reporter, insert pages 58 through 61.

(The pages follow:)

Division of Corporate Regulation

FUNCTIONAL STATEMENT

The Division of Corporate Regulation assists the Commission in administering the regulatory provisions of the Investment Company Act of 1940 and the Public Utility Holding Company Act of 1935. It also performs the Commission's functions as adviser to the courts under chapters X and XI of the National Bankruptcy Act.

The Division consists of the Office of the Director, the Office of Chief Counsel, three branches of Investment Company Regulation, one branch of Investment Company Inspections and Investigations, the Office of Research and Service Company Regulation, the Branch of Reorganization (chs. X and XI), and the Branch of Public Utility Regulation.

Justification

Fiscal year	Personal services	
	Cost	Positions
1964	$952,000	106
Increase	44,500	
1965	996,500	106

Position increase by organization, 1965 over 1964

	1964	1965	Increase 1965 over 1964
Office of the Director	11	11	
Branches of Investment Company Regulation (3) and Branch Inspection	60	60	
Branch of Public Utility regulation	13	13	
Office of Chief Counsel	17	17	
Office of Research and Service Company regulation	5	5	
Totals	106	106	

For fiscal 1965, no additional positions are requested for the Division. The increase of $44,500 represents the cost of mandatory pay increases.

1. Regulation of investment companies

Item	Actual 1963	Estimate 1964	Estimate 1965
A. Registration of new companies	48	50	50
B. Applications reviewed for exemption of transactions with affiliates, status matters and other proposals of investment companies:			
Pending at beginning of year	93	103	63
Filed during the year	142	160	160
Subtotal	235	263	223
Applications reviewed during the year	132	200	200
Pending at end of year	103	63	23
C. Review of filings for compliance with regulatory provisions of the act:			
Pending at beginning of year	51	47	47
Filed during the year	1,386	1,400	1,400
Subtotal	1,437	1,447	1,447
Reviewed during the year	1,390	1,400	1,400
Pending at end of year	47	47	47
D. Review of annual compliance reports:			
Pending at beginning of year	----------	----------	177
Filed during the year	----------	677	717
Subtotal	----------	677	894
Reviewed during the year	----------	500	744
Pending at end of year	----------	177	150
E. Public and interpretive letters	1,606	1,700	1,800

For this activity, the branches of investment company regulation require no additional positions in 1965 over 1964. Personnel will be reviewing, for the first time, annual compliance reports in 1964.

The Commission has recently approved the need for an annual compliance report from each registered investment company for the purpose of supplementing the inspection program on the proposed 2-year cycle. The compliance reports will contain detailed information as to the registrants' methods of operation as well as representations as to compliance with various sections of the act. Thus, the Commission will be able to take remedial action on a more current basis, where necessary.

Initial registartion of an investment company requires a careful analysis of its financial position, a review of its corporate structure and of the literature by means of which it intends to sell its shares to the public. Once it has started in business, its activities must be closely supervised in order to make sure that they comply with the provisions of this intricate statute. On June 30, 1963, the aggregate value of assets managed by all registered investment companies was estimated to have reached over $35 billion.

The publication entitled "A Study of Mutual Funds" prepared by the Wharton School of Finance and Commerce, University of Pennsylvania, at the direction of the Commission and chapter XI of the Special Study of Securities Markets have uncovered a myriad of actual and potential problems in the area of mutual funds. Accordingly, data pertaining to mutual funds and other areas must be developed and analyzed in depth for the purpose of determining, formulating, and documenting legislative and rulemaking recommendations to the Commission, as may be deemed appropriate.

Examples of noncompliance with regulatory provisions of the Investment Company Act are as follows: (1) Improper composition of boards of directors because of the affiliation of directors; (2) unlawful joint transactions of a fund and its officers and directors; and (3) deviations from fundamental policy without approval of stockholders.

2. Investment company inspections and investigations

	Actual, 1963	Estimate, 1964	Estimate, 1965
A. Registered investment companies:			
Number at beginning of year	727	727	727
Number of registrations during year	48	50	50
Subtotal	775	777	777
Number of registrations terminated during year	48	50	30
Number of registrations end of year	727	727	747
Less inactive companies	72	50	30
Potential inspection workload	655	677	717
Investment company inspections	85	150	325
Approximate cycle of inspections, years	8	4½	2
B. Investigations relating to serious violations involving possible civil action:			
Pending at beginning of year	19	47	67
Opened during the year	39	40	60
Subtotal	58	87	127
Disposed of during the year	11	20	60
Pending at end of year	47	67	67

For this activity, the Branch of Investment Company Inspections and Investigations requires no additional personnel in 1965 although 21 additional positions (professional and clerical) are requested for the field offices to achieve a 2-year inspection cycle in 1965. The 21 positions are justified under the "regional offices" section of this justification.

The personnel of the Branch extensively assists the regional office personnel in inspection of investment companies since this program is in its formative stage. Eventually, it is anticipated that a greater share of the workload will be accomplished subsequent to fiscal 1964 by field personnel.

ADDITIONAL PERSONNEL REQUESTED

Mr. EVINS. Do you want to tell us why these additional personnel are needed, those mentioned on page 61?

Mr. CARY. Yes, sir. We need these because the investment company field has been untouched up to this time. We are trying to increase our inspection program so we can cover them on a basis of every 2 years rather than the present cycle which is roughly 4½ years. This means every 2 years we will be able to have inspected each one of these.

I think at least until we get that first set of inspections done we do not feel very comfortable.

Mr. EVINS. You want 13 new personnel in the New York office, three in Boston, two in Atlanta, seven in Chicago, four at Fort Worth, and so forth, for three programs in the field.

Mr. JONAS. Mr. Chairman, you were not here when Mr. Allred paid such a high compliment to your dealers in Texas. I thought he said he didn't need any more help there.

Mr. CARY. He said he needed no help in the field of investment advisers.

Mr. ALLRED. I referred to investment advisers. I do not need investment advisers but I need help in the investment company division.

Mr. JONAS. He said you had a high type of investment counselor operating in Texas and didn't have the same problem as in New York and Chicago.

Mr. THOMAS. Off the record.
(Discussion held off the record.)

REGIONAL OFFICES

Mr. EVINS. Let us turn to regional offices. We shall insert in the record pages 78, 79, and 91.
(The pages follow:)

REGIONAL OFFICES

FUNCTIONAL STATEMENT

The regional offices are the field representatives of the Commission in the administration and enforcement of the various acts.

The principal functions of the regional offices include the following: (1) examination of the books, records and practices of registered brokers and dealers and members of national securities exchanges, and the examination of their annual financial reports; (2) investigation of (*a*) transactions in securities on national securities exchanges in the over-the-counter market, and in distributions to the public, and (*b*) complaints from investors and others; (3) examination and processing of filings under regulation A; (4) recommendation of administrative civil or criminal sanctions where violations have been established; (5) prosecution of injunctive actions in U.S. district courts and administrative proceedings before hearing examiners; (6) rendering of assistance to U.S. attorneys in criminal cases; (7) participation in proceedings in U.S. district courts under chapters X and XI of the Bankruptcy Act; (8) examination of the accounts and records of registered investment companies; (9) rendering interpretative advice and assistance to registrants registered brokers and dealers, prospective registrants, the investing public and others as to the application and meaning of the various statutes and the Commission's rules regulations and forms; and (10) examination of the books, records, and practices of registered investment advisers.

Justification

Fiscal year	Personal services	
	Cost	Positions
1964	$4,610,000	609
Increase	542,238	47
1965 total	5,152,238	656

Position increase by regional office, 1965 over 1964

	1964	1965	Increase 1965 over 1964
New York	224	237	13
Boston	27	30	3
Atlanta	35	37	2
Chicago	95	102	7
Fort Worth	34	38	4
Denver	50	52	2
San Francisco	58	65	7
Seattle	39	41	2
Washington, D.C.	47	54	7
Total	609	656	47

The 47 additional positions requested for the regional offices in 1965 over 1964 are required for the following purposes:

1. Increase the number (175) of inspections of investment companies which will result in an overall 2-year cycle as compared with the 4½-year cycle estimated for 1964.

2. Increase the number (205) of inspections of investment advisers so as to achieve an overall 4-year cycle as compared with the 7-year cycle estimated for 1964.

3. Accelerate the conduct of investigations and enforcement actions including administrative, civil, and criminal proceedings.

Summary of additional positions requested for regional offices for fiscal 1965, by program

Region	Investment company inspections		Investment adviser inspections		Investigations and enforcement		Total	
	Number	Annual salary rate	Number	Annual salary rate	Number	Annual salary rate	Number	Annual salary rate
New York	7	$50,564	3	$21,070	3	$15,953	13	$87,587
Boston	2	14,060			1	7,030	3	21,090
Atlanta					2	12,314	2	12,314
Chicago	4	29,494	1	8,424	2	12,646	7	50,564
Fort Worth	2	12,646			2	11,731	4	24,377
Denver					2	12,314	2	12,314
San Francisco	3	21,549	2	16,848	2	13,125	7	51,522
Seattle					2	11,252	2	11,252
Washington, D.C.	3	21,549	2	16,848	2	9,402	7	47,799
Total	21	149,862	8	63,190	18	105,767	47	318,819

Office of Comptroller

Mr. Evins. We shall turn now to the Office of the Comptroller, page 71. Insert that in the record.

(The page follows:)

Office of the Comptroller

Functional statement

This Office performs all the Commission's financial management functions, including (1) formulation of budget estimates; (2) apportionment, allocations, and control of funds; (3) program planning; (4) payroll and audit operations; (5) billings and collections; (6) recording transactions to the general ledger accounts and subsidiary ledgers; (7) preparation of financial statements; (8) machine tabulation; and (9) compilation of required reports in accordance with current regulations.

Justification

	Personal services	
	Cost	Positions
Fiscal year:		
1964	$174,000	28
Increase	22,800	2
Total, 1965	196,800	30

The increase of $22,800 in 1965 over 1964 represents the cost ($16,800) of two additional positions (programers) and $6,000 for mandatory pay increases. The

additional positions are required for the operation of a computer to be installed in January 1965.

Function	Estimate 1964	Estimate 1965	Increase 1965 over 1964
Budget activities	5	5	
Payroll operations and maintenance of leave records	7	7	
Administrative auditing	4	4	
Administrative accounting, collection and disposition of fees and revenue	2	2	
Machine tabulation	10	12	2
Total	28	30	2

Mr. EVINS. You are asking for two additional positions in the Office of the Comptroller.

Mr. DONATY. That is right. These will be required in connection with the establishment of the computer section next year.

Mr. EVINS. Next is Office of Records and Management, where you need one additional personnel. I do not believe your computer is reducing the personnel requirements.

BROKER-DEALER INSPECTIONS

Turn to page 81, "Broker-dealer inspections." Would you give us a quick rundown of the situation in this Division, the workload, the number of applications pending, the number of referrals called to your attention, what you need to do, what you are accomplishing, and so on?

Mr. SAUL. One of the principal purposes of this inspection program is the one mentioned earlier, and that is nipping violations in the bud. I think this is perhaps the most important part of it.

When we go into making an inspection we do nip in many cases violations of the act. We find possible violations of the Commission's rules and regulations.

I would say the purpose of this program is primarily prophylactic. It has worked out very effectively. As we point out, we are now on a cycle of inspections every 3 years for every broker-dealer.

Mr. EVINS. In 1964, you had 5,500 registered broker-dealers.

Mr. SAUL. That is correct.

Mr. EVINS. You anticipate 5,700 next year.

Mr. SAUL. That is correct.

Mr. EVINS. Two hundred more are entering the field.

Mr. SAUL. Yes.

Mr. EVINS. Are these all over the country?

Mr. SAUL. These are generally all over. Most of our broker-dealer registrants are, of course, centered in the New York area.

Mr. EVINS. In 1963, you had 1,534 inspections; in 1964, you had 1,553; and you anticipate 1,600 in 1965. What do you do besides a pleasant social call when you go to see them?

Mr. SAUL. It is far more than a pleasant social call. If we find there is the possibility of violations or actual violations, we point it out to the broker-dealer and give him an opportunity to take corrective action. Of course, we recommend administrative proceedings to

the Commission, if that is indicated. The inspection program is the most important of our surveillance of broker-dealers.

(Off the record.)

OTHER EXPENSES

Mr. EVINS. Let us turn to "Other expenses." Insert page 94 in the record.

(The page follows:)

SUMMARY, OTHER EXPENSES

The sum of $2,525,000 is required in 1965 for costs other than salaries. These costs are itemized in the following tables:

Item of expense	1963 actual	1964 estimate	1965 estimate
Personnel benefits	$734,042	$800,000	$872,000
Travel and transportation of persons	493,467	570,000	618,000
Transportation of things	12,645	12,000	12,000
Communications and rental	403,719	390,000	575,000
Printing and reproduction	66,386	51,000	64,000
Other services	174,061	205,000	220,000
Supplies and materials	147,259	125,400	131,000
Equipment	71,924	21,600	33,000
Total	2,103,503	2,175,000	2,525,000

The overall increase of $350,000 for expenses other than personal services in 1965 represents the following items:

1. The sum of $232,500 for normal office expenses for the additional personnel requested necessary to accomplish the increased program workload of the Commission.
2. The amount of $64,500 is required to alleviate the existing space deficiency of 11,700 square feet in Washington, D.C.
3. The sum of $53,000 for rental of a medium size electronic computer.

Mr. EVINS. Summary of "Other expenses." Personal benefits are up. Travel and transportation have increased. Transportation of things is $12,000.

Mr. THOMAS. Why should it be that much? What is your turnover? Transportation of things is tied more or less to your turnover.

Mr. JONAS. Communications is up.

Mr. DONATY. It is the same in 1965 as in 1964 for the transportation of things. Communications and rental is up.

Mr. THOMAS. Yes. I beg your pardon.

Mr. JONAS. $600,000 for travel for one little agency is fantastic.

Mr. CARY. Of course, we are all over the country, sending people out for investigations and inspections. In enforcement work, even our Seattle regional office, for example, has to go as far as Alaska and Montana.

Mr. JONAS. What do you guess the travel bill of the agencies covered by our appropriation bill amounts to?

Mr. CARY. The total of all agencies?

Mr. JONAS. No, just the ones in our independent offices bill. $61 million.

Mr. COHEN. We are small peanuts.

Mr. JONAS. You have but 1,500 people traveling.

Mr. THOMAS. Look at your communications and rental. How much of that is for the computer?

Mr. DONATY. The increase is only $53,000. We will have the computer for only 6 months, from approximately next January or February until the following June.

One of the largest increments in communications and rental is the additional $95,500 for office space making a total of $100,500 in 1965. Of the $100,500, approximately $36,000 is for the additional 60 jobs. The balance of $64,500 is to alleviate a very bad situation in Washington, approximately 12,000 additional square feet is needed.

COMMUNICATIONS COSTS

Mr. JONAS. What is your communications bill, stated separately?

Mr. DONATY. The communications bill for this year is $132,600 for local telephone, and $115,800 for long distance, or a total of approximately $248,000.

Mr. JONAS. The rest is rental?

Mr. DONATY. Yes, sir.

Mr. THOMAS. What is your experience with General Services? Many people come in here and claim they are tying in under General Services and costs more than before the tie-in. What is your experience?

Mr. DONATY. We have found generally that when we use FTS, it is more economical.

Mr. EVINS. You are asking for an increase because of increased rates?

Mr. DONATY. This is not a facet of FTS. If my understanding is correct, some of the General Services' cost of FTS at the present time is being subsidized by certain GSA appropriations. To make the FTS network self-sufficient on a reimbursable basis from other agencies, they intend to have the agencies pay the additional cost. Thus, the Congress will not have to give GSA any direct appropriations for this network. This is something like your retirement fund.

Mr. EVINS. It is appropriated to the individual agencies like yourself, and you, in turn, reimburse GSA, but have you any information that GSA is going up on its rate to SEC?

Mr. DONATY. Not to SEC, but they have distributed a Government-wide statement, something to the effect that on local calls there probably will be an increase of about 45 percent. However, this increase should be offset by approximately a 25- or 30-percent savings in using the FTS long-distance network.

In our particular instance, the increased rates are approximately $13,000.

Mr. THOMAS. And your saving is how much?

Mr. DONATY. It is a 45-percent increase in local and about a 30-percent decrease in long distance. So, there is a net increase of about 15 percent, or about $13,000.

Mr. EVINS. Printing and reproduction costs are up by $13,000. You want to print judicial decisions. All other printing costs remain constant, except for this new item.

That appears on page 102.

Building alterations show an increase. Miscellaneous expenses are up. Contract stenographic reporting is up.

ADDITIONAL OFFICE SPACE

Mr. Chairman, what does the GSA say to you about the possibility of providing you with additional quarters? Where are you on their schedule of priorities?

Mr. CARY. We have been talking to them. I have talked to Mr. Boutin, and I thought I had him in tears. He nevertheless said that we probably could not get a building for 7 more years. He therefore said that the best thing for us to do was to try to see if sometime we could come to you and the Bureau of the Budget and see whether we can rent space in a better location, with the idea that he then would put us into something of a permanent nature.

(Off the record.)

SUPPLIES AND MATERIALS

Mr. THOMAS. Break down the item of supplies and materials. That is getting into money here. I assume your increase here is based upon additional employees, is it not?

Mr. DONATY. Yes.

Mr. THOMAS. Put page 104 in the record.

(The page follows:)

SUPPLIES AND MATERIALS

The amount of $131,000 is required in 1965 for the purchase of supplies and materials, subscriptions to financial services and other published materials, library additions, and the purchase of newspapers. The itemization of these costs is shown below:

Item	Actual, 1963	Estimate, 1964	Estimate, 1965
Office supplies	$109,422	$86,600	$89,000
Newspapers	1,738	1,800	2,000
Library material	36,099	37,000	40,000
Total	147,259	125,400	131,000

The increase of $5,600 in 1965 over 1964 represents increases in the following items:

1. An increase of $2,400 relates to the cost of office supplies for the requested increase in the personnel requirements for 1965.
2. An increase of $3,000 for providing financial periodicals, law books, and other reference material for the regional offices.
3. A nominal increase of $200 for the purchase of newspapers for the regional offices.

EQUIPMENT

Mr. THOMAS. Here is a breakdown of equipment. Insert pages 105 and 106.

(The pages follow:)

EQUIPMENT

The following table shows the amount required for the purchase of equipment in 1963, the estimate for 1964, and the 1965 estimated requirements.

Item	Actual, 1963	Estimate, 1964	Estimate, 1965
Equipment	$71,924	$21,600	$33,000

For 1965, the amount of $33,000 represents the cost of items summarized in two major groups, which are explained later in detail:

1. Purchase of equipment for additional positions requested in 1965	$19,000
2. Replacement of equipment	14,000
Total	33,000

PURCHASE OF EQUIPMENT FOR ADDITIONAL POSITIONS

The following tabulation lists the items of equipment, which are the minimum requirements for the additional personnel requested in 1964:

Description	Unit price	Number	Total cost
Clerical desks	$160	39	$6,240
Typist desks	160	21	3,360
Rotary chairs	40	39	1,560
Typist chairs	30	21	630
Typewriters	430	21	9,030
Subtotal			20,820
Less estimated cost of equipment to be obtained, as excess, from GSA			1,820
Total			19,000

REPLACEMENT OF EQUIPMENT

The following equipment is required as replacement for the Duplicating Section in view of the poor condition of existing machines:

Item	Quantity	Year of purchase	Cost
Model 1250 multilith	1	1957	$3,200
Envelope sealer	1	1937	3,500
Addressograph	1	1958	7,300
Total cost for duplicating equipment			14,000

FEES

Mr. THOMAS. Then there is a statement of fees.

Mr. EVINS. Insert page 107, Mr. Reporter.

(The page follows:)

STATEMENT OF ACTUAL 1963 FEES AND ESTIMATED FEES FOR 1964 AND 1965

The fees collected by the Commission in the fiscal year 1963 and the estimated fees for fiscal 1964 and 1965 are as follows:

Character of fees	Actual 1963	Estimate 1964	Estimate 1965
Registration of securities under the Securities Act of 1933	$1,400,615	$1,560,000	$1,750,000
From stock exchanges under sec. 31 of the Securities Exchange Act of 1934	1,131,280	1,300,000	1,300,000
Qualification of trust indentures	1,100	1,000	1,000
Other fees	991	1,000	1,000
Total fees collected	2,533,986	2,862,000	3,052,000

Mr. EVINS. Are there any further questions?

Mr. Chairman, this is always an interesting exercise, and we are always glad to have you here.

Mr. THOMAS. Before you close the hearing, Mr. Evins, may I make one other observation, please?

Let us turn over to page 4 or 5 of your justifications.

Mr. CARY. This long one, sir?

PAY INCREASES

Mr. THOMAS. Turn back to your original transmittal letter.

You are seeking 60 new jobs at a cost of $385,000. You are breaking down the increase of $1,287,500 over last year. Of that, $385,000 is for 60 jobs. That is just about one-fourth of it. The cost of pay increases, $290,00, is statutory. The salary step increases are $262,500.

I note that your average grade is 9.2, and your salary average is slightly under $9,000. How many supergrades do you have?

Mr. DONATY. We have 25 supergrades, sir.

Mr. THOMAS. How many 18's, 17's, 16's, 15's, and 14's? Read that into the record.

Mr. DONATY. Grade 18, we have 4; grade 17, we have 6; grade 16, we have 15; grade 15, we have 64; grade 14, we have 76; grade 13, 176.

Mr. THOMAS. You have taken good care of your people. We like to see that. You are an important agency. A good many of us here think the Government will have to pay some comparable salaries for its people. Particularly the salaries of Commissioners and top staff people, now around $17,000 or $18,000, we think will have to go up to perhaps $30,000.

But here you have $550,000, and about 40 percent of your increase is not for new jobs, but for within-grade promotions and pay act costs.

I think we ought to increase the pay schedule for the people who are carrying the responsibility and doing the work, but you have a number of within-grades here. How many people are you giving within-grade promotions?

Mr. DONATY. The law states, sir, that in steps 1, 2, and 3, an individual who has a satisfactory performance rating every year will get a within-grade promotion.

Mr. THOMAS. Of what?

Mr. DONATY. It varies with the grade the individual is in. For instance, if I am in the second step and go to the third step, my increase will be approximately $500 a year.

Mr. THOMAS. That is the new law passed last year. That is all right. We are in favor of that. That makes sense.

How many people did you promote a full grade throughout the agency? How many went from 12 to 13, for instance?

Mr. DONATY. We can take this for an example, Mr. Chairman. In 1963, in grade 13 level, we had 173 grade 13's. This year we estimate 176.

Mr. THOMAS. That is quite modest.

Mr. DONATY. What happens in these regular promotions is that generally, one of our individuals resigns or retires or passes away, and, of course, we have a ladder for promotions.

Mr. THOMAS. Your within-grade promotions arise by virtue of legislation.

Mr. DONATY. Yes.

Mr. EVINS. These figures for within-grade promotions do not include your 60 new personnel.

Mr. DONATY. No. That is right. Within-grades for the 60 jobs are not in this figure because they will not have served at least 1 year in fiscal year 1965.

Mr. EVINS. Are there any further questions.

Mr. JONAS. Do you have your people travel at the cheapest rate available.

Mr. DONATY. Yes, sir.

Mr. COHEN. Including the Commissioners.

Mr. THOMAS. Thank you, gentlemen. We always are delighted to have you over.

Mr. CARY. Thank you very much, Mr. Chairman.

TUESDAY, FEBRUARY 18, 1964.

CIVIL AERONAUTICS BOARD

WITNESSES

ALAN S. BOYD, CHAIRMAN
ROBERT T. MURPHY, VICE CHAIRMAN
CHAN GURNEY, MEMBER OF THE BOARD
G. JOSEPH MINETTI, MEMBER OF THE BOARD
WHITNEY GILLILLAND, MEMBER OF THE BOARD
EDWARD J. DRISCOLL, EXECUTIVE DIRECTOR
JOHN B. RUSSELL, CHIEF, OFFICE OF ADMINISTRATION
IRVING ROTH, DIRECTOR, BUREAU OF ECONOMIC REGULATION
JOHN H. WANNER, GENERAL COUNSEL
WARNER H. HORD, CHIEF, OFFICE OF CARRIER ACCOUNTS AND STATISTICS
FRANCIS W. BROWN, CHIEF HEARING EXAMINER
JOSEPH C. WATSON, DIRECTOR, BUREAU OF INTERNATIONAL AFFAIRS
LEON H. TANGUAY, DIRECTOR, BUREAU OF SAFETY
JOHN G. ADAMS, DIRECTOR, BUREAU OF ENFORCEMENT

Mr. THOMAS. Gentlemen, will the committee please come to order?

We have with us this morning the Civil Aeronautics Board. It certainly is nice to have this distinguished and patriotic group of high-grade technicians with us again. That is what they are. They have a very technical job. They certainly do it well. It is nice to have with us our very able and distinguished Chairman. I understand he is going to be with us a while longer. We are delighted to have you. Congratulations.

We have the Vice Chairman, Mr. Robert T. Murphy; our old and distinguished friend, Chan Gurney; and our partner from New York, Commissioner Minetti; and of course, we can't let this distinguished gentleman get away from us. He worked with us long and hard.

(Discussion off the record.)

Mr. THOMAS. For the record, we are delighted and honored to have with us again Judge Gillilland. You look like a million. We hope you always enjoy good health and good looks.

Mr. GILLILLAND. Thank you, Mr. Chairman.

Mr. THOMAS. We have the Executive Director, Mr. Driscoll.

Mr. BOYD. He is our new Executive Director, Mr. Chairman.

Mr. THOMAS. Did we confirm him gentlemen? We will have to go into these procedures later. We usually confirm all of these high-ranking officers.

Mr. BOYD. He is here, subject to your approval.

Mr. THOMAS. We are delighted to have you, Mr. Driscoll. We will confirm you after a while.

Where is brother Russell? You had better get around where we can see you. How are you doing?

Mr. RUSSELL. Fine.

Mr. THOMAS. Here is brother Roth. It is nice to have you with us. Mr. Roth is Director, Bureau of Economic Regulations.

Where is Mr. Wanner? Judge, how are you doing?

Mr. WANNER. Very fine.

Mr. THOMAS. Mr. Hord is with us, Chief, Office of Carrier Accounts and Statistics. Nice to see you, Judge Hord.

Where is Judge Brown, Chief Hearing Examiner? How are you doing?

Mr. BROWN. Just fine. Glad to be with you, sir.

Mr. THOMAS. What about that workload?

Mr. BROWN. Doing the best we can.

Mr. THOMAS. Getting pretty heavy, isn't it?

We have with us Mr. Joseph C. Watson, Director, Bureau of International Affairs. That is the job I want.

Mr. WATSON. Yes, sir.

Mr. THOMAS. Good to have you, Mr. Watson.

Here is Mr. Leon Tanguay, Director, Bureau of Safety. How are you feeling, sir?

Mr. TANGUAY. Fine, thank you.

Mr. THOMAS. Where is brother Adams, Director, Bureau of Enforcement? How are you, Judge?

Mr. ADAMS. Fine, sir.

Mr. THOMAS. It is nice to have all of you distinguished gentlemen with us.

Mr. Chairman, I hope you and your fellow Commissioners will talk to us and tell us what is going on, what are some of your headaches, how are you getting along with some of your big mergers.

What about your subsidiary bills? What about the improvement of your activities, looking toward improvement of service? We have a few general questions.

We are delighted to have all of you.

Mr. BOYD. Thank you, Mr. Chairman.

I would like to mention one thing in passing, before we get started on the essentials of the appropriation itself and that is, I say with a sense of some sadness that this is the last time this Board will be meeting before you as presently constituted because Senator Gurney has announced that he is retiring the end of this year.

Mr. THOMAS. We noticed that with much regret. Maybe he will change his mind.

Mr. BOYD. We figured by this time he might not be able to find his way out of Washington.

Mr. THOMAS. We are always delighted to have you. You certainly render an outstanding service to the taxpayers. The people are always indebted to you.

Mr. GURNEY. Once in a while I get one of them to agree with me.

Mr. THOMAS. You can't win them all; can you?

GENERAL STATEMENT

Mr. BOYD. Mr. Chairman and members of the committee, it is a pleasure for us to meet with you again to discuss the Civil Aeronautics Board's program goals and financial requirements. I believe that our budget justifications which you have, provide you with a detailed picture of our requirements. Therefore I will cover highlights of our accomplishment and future needs. First, I would like to bring you up to date on the status of the industry the Board is charged with regulating and promoting.

STATUS OF THE INDUSTRY

Six charts, attached to this statement as exhibit No. 1, show the tremendous growth of the air carrier industry for the period 1947 to 1963, and the comparative size and scope of today's air transport industry. The operating statistics for 1963 also represent a substantial growth over the preceding year.

For the year 1964 we are projecting an additional growth in revenue passenger miles from 48⅓ billion to a little over 52½ billion, which is nearly a 9-percent rate of growth for the scheduled carriers and for freight we are projecting a 14-percent growth, from 1,059 million ton-miles of freight and express to 1,207 million.

COST OF AIRFREIGHT

Mr. THOMAS. What about that airfreight? Can anybody afford to ship anything, unless it is diamonds?

Mr. BOYD. Yes, sir.

Mr. THOMAS. Can they ship anything but diamonds or uranium by airfreight?

Mr. BOYD. Yes, sir. The airfreight business is growing. There have been significant reductions in the aircargo tariffs in the past two and a half years, and I think——

Mr. THOMAS. They are so high now.

Mr. BOYD. They are high on a comparative basis, but you cannot just look at the dollars, Mr. Chairman. There are a lot of things involved that make airfreight more valuable to the shipper and the consignee. Insurance is cheaper, there is less pilferage, there is less breakage and there is less packaging cost.

Mr. THOMAS. Those are certainly big points in favor of it, but I do not think it is the fault of the carriers. It may be the state of the art. I do not know what it is. If you can ever get the tariff down to a reasonable figure, you will really have something. It eliminates those things you just mentioned, the breakage is less, and therefore the insurance ought to be less, and certainly it saves time, packing, crating and so forth.

Mr. BOYD. It helps to reduce inventories also for warehousing.

The high cost in the past has been that the carriers were trying to make something work that was not set up for the purpose. They took passenger planes and tried to convert them and they were able to move cargo but not able to move it efficiently. Now, for the first time the manufacturers are making airplanes which are specifically for cargo movement. This has brought the cost down very considerably. At the other end of the scale, one of the big costs in cargo was the ground handling charge which, until recently, was done almost altogether manually. Now the airfreight operators are going into automated terminals, which is cutting down the ground handling costs.

NUMBER OF AIRFREIGHT CARRIERS

Mr. THOMAS. How many freight operators do we have of sig[illegible] magnitude?

Mr. BOYD. There are about seven. There are three all-cargo carriers that handle nothing but cargo and four of the trunk carriers are

KANSAS STATE UNIVERSITY LIBRARY MAY 26 1964 MANHATTAN, KANSAS

major cargo operators. That is in the domestic field. In the international field we have four, Pan American, TWA, Northwest, and Seaboard, all of whom have very substantial cargo operations.

PASSENGER TRAFFIC INCREASES

For example, passenger traffic was 12 percent higher for the year ending September 1963 than for the same period the preceding year. Some 14 percent more seat-miles were offered last year than in the preceding year. It is interesting to note that the increased volume of operations was performed with a smaller total aircraft fleet—1,910 aircraft compared with 2,033 a year ago. However this fleet includes a greater number of the highly productive and larger capacity turbine-powered aircraft.

The industry had progressed substantially in its historical conversion from piston to turbine-powered aircraft by the end of 1963. The cumulative effect of the conversion, which started in late 1958, shows the certificated route industry with 683 turbine-powered aircraft, of which 415 are large turbojet and turbofans, in its total fleet of 1,910. Eighty-three percent of domestic and 94 percent of international mainline passengers now are being carried in turbine-powered aircraft.

Last year, and the year before, I reported to the committee that the industry profit picture was not impressive compared to the growth in traffic and capacity.

This year the financial picture of the carriers is pretty good. The domestic trunks had a net operating income of $75 million in 1962. That is the operating profit before interest, income taxes, and other "below the line" items. The net operating income was $140 million in 1963. The net income in 1962 was $8 million, and jumped to more than $45 million in 1963. We hope to see better figures for 1964. Industry-wide, the return on investment for 1958 was 5.5 percent. It then slumped. The industry earned only 3.2 percent in 1960 and 2.1 percent in 1961. The turning point came in 1962 when the industry realized a 5.7 percent return on investment. The recovery continued during 1963 with the result that the 12 months ended September 30, 1963, was 6.8 percent, significantly above the 1958 level of 5.5 percent which preceded the aircraft conversion period.

The international and territorial carriers, particularly, have shown a sharp improvement in return on investment. In 1958, it was 3.2 percent; last year it was 10.4 percent.

Prospects are bright for future profitability of the certificated industry as a whole. This is primarily due to the marked improvement in the economics of the turbine-powered aircraft over piston-powered aircraft.

At present fare and cost levels, the best break-even load factor attainable by a piston aircraft is approximately 50 percent whereas the turbofans now are approaching a 35-percent break-even load factor.

PROSPECT OF LOWER FARES

With a better adjustment between capacity and traffic to permit an improvement over present load factors there is every likelihood that the industry can look forward to continued improvement in profit-

ability while at the same time holding out the prospect of lower fares to the public.

Average domestic trunkline fares per mile, both first class and coach, turned downward last year for the first time since 1957. The lower fares are reflected in the various special fares and fare changes introduced by the carriers which I will discuss later.

Salaries and Expenses

Now let us turn to our appropriation request for "Salaries and expenses." We are requesting $10.8 million for 1965, an increase of $572,000 over the preceding year. This increase is a net figure consisting of several elements of increases and decreases.

With respect to increases, we are requesting:

1. $194,700 to cover the additional half year's cost of the second step of 1962 pay raise which was effective in January 1964;

2. $172,400 to cover the cost of mandatory within-grade salary increases which will be in effect for only part of 1964 and the additional ones becoming effective during 1965;

3. $185,500 to cover an increase of approximately 17 man-years of employment as a result of reduced lapses going with fuller utilization of positions and the various other cost adjustments detailed in the justifications; and——

Mr. Jonas. Would you yield?

Mr. Boyd. Yes, sir.

Mr. Jonas. Have you taken into consideration the fact that we have one less workday this year?

Mr. Boyd. Yes, sir.

Mr. Jonas. That is reflected in these figures?

Mr. Boyd. That is reflected. That is in this figure here of $185,000. That is a net figure.

4. $213,300 for increasing program activities and which except for an amount of $17,300 for increasing the memory capacity of our electronic computer, is for safety activities including 12 additional positions.

We are projecting decreases, totaling $193,900, resulting from our planned elimination of 26 positions throughout our various activities. The exception is in the Bureau of Safety.

Organizational Improvements

The reduction in positions and financial requirements will be possible, we believe, through improvements in organization and procedures, as well as continued improvement in the overall efficiency of the staff over and above that attained during the past 2 years and that originally planned for 1964.

We are in the midst of consolidating various supporting functions in the Office of the Secretary. This, we anticipate, will enable us to improve the performance of those functions. At the same time we will be able to eliminate four positions in 1965. Another example of consolidation is the establishment of a central file facility in the Office of Administration where Board files and related positions from

the several offices and bureaus have been transferred. Here again, we anticipate we will be able to eliminate three positions.

The Board is requesting an increase of 12 positions and $196,000 for the Bureau of Safety activity. We also are requesting $17,300 for an additional memory unit for the electronic computer as well as for increased utilization of the computer. Of the 12 positions for the Bureau of Safety, 7 are to permit needed training of safety technical personnel, 4 are for accident prevention and safety promotion work, and 1 is needed to handle the increase in workload and backlog in the "accident analysis and determination of probable cause" area.

ACCIDENT INVESTIGATION

In our safety activities the first priority is, of course, given to the primary function of aircraft accident investigation. For the first half of this fiscal year we initiated 524 investigations, of which 138 involved air carriers. The remaining 386 were in general aviation. For the comparable period in the preceding fiscal year, 482 investigations were initiated, 134 involving air carriers and 348 in general aviation.

We have no investigatory backlog and we have maintained a normal level of pending cases for the last 6 months. Thus, we are holding our own while experiencing about a 9-percent rise in investigatory workload.

I am happy to say, that unlike last year, we now are able to provide some sorely needed training for our safety personnel so they can maintain their proficiency in this rapidly changing technological field. Keeping technical personnel abreast with advances in the state of the art is one of our real critical problems. We aim to provide continuous refresher training to the staff through courses offered by manufacturers, educational institutions, or other Government agencies.

During the first half of this fiscal year, 32 people attended 17 different training courses. During the last half of this fiscal year we plan to send an equal number to other training courses.

CAB-FAA SCHOOL

Also available to us is the National Aircraft Accident Investigation School at Oklahoma City established jointly by the CAB and FAA with Government funds. This school is a job-oriented practical course in the latest techniques of aircraft accident investigation aimed at teaching our personnel, who have accident investigation duties, the latest techniques, procedures, and methods of conducting an investigation.

The school opened September 30, 1963, with a prototype class limited to 15 students selected from the CAB and FAA. Classes were completed in November 1963. We are now evaluating the results of this first course and are making changes in the material and course of study before the next class begins in early March. Seven CAB investigators were in the first class. We have scheduled 27 persons to complete the course at the school in fiscal 1964 and 49 in 1965.

There are many indications that this school is a worthwhile undertaking, and it will be one of the most valuable contributions in many

years to the improvement in aircraft accident investigation knowledge and skills.

If our investigating personnel are to live up to the worldwide reputation of experts that they have achieved, they must be schooled in the latest developments in the science and art of aviation and flying.

ACCIDENT PREVENTION

Although accident investigation is the most immediate of the Bureau's work priorities, its more rewarding and more enduring function is accident prevention. The lessons learned from accidents are put to use in preventing other accidents. We have made some strides in our accident prevention program. We must do more.

For the past 3 years the number of safety recommendations we forwarded to the FAA and other agencies has increased. In 1961 we forwarded 18, and 82 percent were accepted and adopted in the form of Federal air regulations, airworthiness directives, or other directive-type material. In 1962 we forwarded 65 recommendations and had 80 percent accepted; in 1963, 87 were forwarded and 83 percent were accepted. Since this January we have forwarded 23. I can't give you a percentage of acceptance for 1964 because many of the recommendations still are under study.

I cite these statistics only as one quantitative illustration of the accident prevention work we do. We are increasing the quantity and we believe maintaining the quality of our accident prevention work.

ACCIDENT RATES DROPPING

The accident rates in both general aviation and air carrier operations have been dropping slightly over the past 10 years—in general aviation, from 3 accidents per million miles flown in 1954 to 2.5 in 1963; in air carrier operations from 0.122 accidents per million miles flown in 1954 to 0.059 in 1963.

We must do all we can to increase the safety of flights. And today's prevention work is tomorrow's safe flight. Four of the twelve position increases we are requesting for this fiscal year will be utilized in accident prevention and safety promotion activities.

DETERMINING PROBABLE CAUSE

The accident analysis function for which the 12th position is being requested mainly involves general aviation. The most severe accicent problem is in general aviation. To illustrate, for the past 4 years there has been an annual average of 4,790 accidents of which 441 were fatal. On the average, 828 were killed in these accidents; 900 persons lost their lives in 477 fatal general aviation accidents in 1963.

It is the analysis function where the accident's probable cause is determined. It is from this work that accident statistics are derived, and it is on this work that much of our accident prevention program is based.

Since the inception of this function in 1959 and the implementation of the Federal Aviation Act, the backlog of general aviation accident cases has increased. One of our prime objectives in our program is to decrease this backlog.

PLAN TO INCREASE ADP CAPACITY

The Board has made substantial progress in mechanizing the statistical and analytical procedures involving the handling of voluminous factual data in the field of both economics and safety. These reports include all of the origin-destination passenger traffic statistics used extensively in route proceedings and bilateral negotiations, and the traffic and financial data widely used in all use-it-or-lose-it cases and many other regulatory proceedings.

At the present time the automatic data processing facility is being used on a two-shift basis with some requirement already for further overtime operation. In order to accommodate the extension of operations to numerous other areas within the Board which are adaptable to mechanized procedures, we plan to increase the capacity of the present facility by adding an additional memory unit.

IMPROVED EFFICIENCY

There are numerous examples that I could cite within our overall activities which would illustrate the improvements already made in our operations or planned for 1965 to improve our efficiency.

I would like to emphasize at this point that the improvements made and those anticipated, together with the resultant savings in dollars and positions reflected in the budget estimates before you, are the payoff, so to speak, of ideas, plans, and a lot of hard work.

In this connection you may recall, Mr. Chairman, that I said last year we would significantly improve our efficiency in 1963. I think we achieved that goal in 1963.

In the budget estimates submitted to you we predict continued improvement in productivity during 1964 and 1965 in most areas of our work. The best evidence that I can present to you of our increase in productivity, both accomplished and expected, is our budget justifications. They show that despite a continuing increase in our economic workload, we are going to eliminate 26 positions with a commensurate reduction in related costs. This will be achieved by improvements in management control, discovering adequate shortcuts and better and more efficient ways of doing our work, and by just plain harder work.

Last December I personally made a pledge to the President that we would do our utmost to make the Civil Aeronautics Board one of the leaders in the field of economy and efficiency in Government operations. The Board unanimously endorsed this program. I am prepared today to make that same pledge to this committee and the Congress. We shall relentlessly pursue this objective.

MAJOR ACCOMPLISHMENTS

I think we can look with pride on the major accomplishments we made during fiscal year 1963, particularly in the field of international rate policy and domestic fares.

The Board rejected a proposed increase in North Atlantic roundtrip fares and was influential in securing substantial reductions in new passenger fares to go into effect April 1, 1964.

In reversing the upward trend, the Board fulfilled one of this Government's announced objectives outlined by the President in his April 1963 statement on international air transport policy.

Tariffs now being filed with the Board reflect an overall reduction of approximately 12 percent on the world's most densely traveled routes over the North Atlantic. This will result in an estimated saving in excess of $50 million for U.S. travelers during the coming season. These fares also become effective in time for the opening of the New York World's Fair. Thus, this Government's efforts to encourage foreign travelers to visit the United States will be materially assisted with a resultant favorable effect on U.S. balance of payments. The world's fair will be brought closer to the doorstep of the European traveler.

LONG-DISTANCE RATES

Mr. THOMAS. Mr. Chairman, what about the Far East? You have talked about the North Atlantic. What about the Far East and Central and South America? Those are pretty long distances. What about those longer distances and the rates on those?

Mr. BOYD. In the Far East, Central and South America, Mr. Chairman, the rates have generally been lower than they have been on the Atlantic and the Pacific because of the type of competition. The operations also have been less profitable for the north-south carriers.

We are working on the Pacific area at the present time in this sense. We have informally advised the carriers, the U.S. carriers, that we are looking for some reductions in mail rates. We had a meeting with them yesterday and they are going to study the situation and come in in 30 days to make proposals to us on how they are going to reduce their mail rates.

Mr. THOMAS. But as of today there is no firm scheduled reduction either in mail rates or passenger rates?

Mr. BOYD. No, sir.

Mr. THOMAS. For east-west or north-south. The reductions are around—I believe you said 12 percent—which apply only to the North Atlantic.

Mr. BOYD. That is right.

Mr. THOMAS. That is where the main volume of travel is?

Mr. BOYD. That is correct.

Mr. THOMAS. That is where you encounter the stiffest opposition?

Mr. BOYD. Yes, sir.

Mr. THOMAS. Mainly because of what fact?

Mr. BOYD. In my judgment mainly because the European countries, the European governments, were not willing to follow the lead of the United States. As it turns out, they were quite willing to reduce rates on their own, but when we objected to an increase in fares, they said, "You cannot do this to us," and they showed us that we couldn't, but they won that round.

Mr. THOMAS. Why did they want to increase them? It is already as high as a cat's back.

OWNERSHIP OF FOREIGN AIR CARRIERS

Most of the lines are owned better than 50 percent by the governments involved, aren't they?

Mr. BOYD. Yes, sir.

Mr. THOMAS. BOAC is predominantly British Government owned. Lufthansa is predominantly German Government owned, is it not? Belgium the same way? Swiss Air the same thing?

Mr. BOYD. Swiss Air has a higher degree of private ownership than any of the others.

Mr. THOMAS. Air France is the same way?

Mr. BOYD. They are all primarily Government controlled with the exception of Swiss Air and a small percentage of Alitalia.

REDUCTION OF NORTH ATLANTIC FARES

Mr. THOMAS. I think our Board certainly deserves an outstanding A-double-plus mark, because on the face of it it was obvious that instead of reducing the fares, the North Atlantic lines were going to increase them.

Mr. BOYD. Yes, sir.

Mr. THOMAS. The final upshot was instead of holding down the present rates, much less an increase, you worked out a sizable decrease of 12 percent.

Mr. BOYD. That is an overall decrease. Some passengers will be able to get up to about a 38-percent decrease, but the average works out at 12 percent.

Mr. THOMAS. Does that apply to scheduled airlines?

Mr. BOYD. Yes, sir. This is only to scheduled air carriers.

Mr. THOMAS. What about the other side of the coin, the nonscheds?

Mr. BOYD. They do not sell on an individually ticketed basis, Mr. Chairman. They sell charters and the charters are much cheaper than the bulk of the scheduled individual ticketed traffic.

Mr. THOMAS. It is a matter of contract between the carrier and the nonscheduled carrier and his customer?

Mr. BOYD. Yes, sir.

AUDIT OF SUPPLEMENTAL CARRIERS

Mr. THOMAS. How much supervision is the Board and FAA paying this group both domestically and overseas?

Mr. BOYD. We are devoting a tremendous amount of time and effort, both of us, to the charter class of carriers, what we call the supplemental carriers. Up until 2 years ago we had not done much of anything in the way of auditing the carriers to keep track of their financial fitness, the supplemental carriers. As a result of the supplemental law, the law applying to supplemental carriers passed in the 87th Congress, we increased our activities by, I would say, well over a thousand percent and we have audited every one of them.

We are making special audits of them at the request of the FAA. We are working very closely with the FAA. We have a good liaison. One of the first things we did as a result of that law, Mr. Chairman, was to put 15 of those carriers out of business because they just were not up to snuff with the statutory standards. I might say——

DISTINCTION BETWEEN SUPPLEMENTAL AND NONSCHEDULED CARRIERS

Mr. THOMAS. When we refer to nonscheduled, you say that really the supplemental applies to all of the nonscheds; does it not? I want the terminology in the record.

Mr. BOYD. No, sir. It applies to the bulk of the nonscheduled carriers.

Mr. THOMAS. What is the difference between the nonscheds and the supplementals?

Mr. BOYD. There are other carriers that could come within the category of nonscheduled, which are what are called "Part 45 carriers," Mr. Chairman, and these are not under the jurisdiction of the CAB in any way, shape, or form. The part 45 carriers are private-contract carriers. They do not seek nor advertise nor hold themselves out for common carriage. They operate on single contracts. The best examples I could give you are——

Mr. THOMAS. They are the occasional operators?

Mr. BOYD. Well, not necessarily, Mr. Chairman. Part 45 carriers, for example, at this time of the year, will be involved in bringing tomatoes and cucumbers into the United States from the Bahamas and from Mexico. They bring shrimp up from Mexico.

Mr. THOMAS. What is the difference between that type carrier and the nonscheduled?

Mr. BOYD. The difference is only that the supplemental carriers, which are under the Board's jurisdiction, hold themselves out to the public to provide a charter service.

Mr. THOMAS. Without a regular schedule?

Mr. BOYD. Without a regular schedule.

Mr. THOMAS. You do not require it?

Mr. BOYD. That is right, sir.

CAB SUPERVISION OVER PART 45 CARRIERS

Mr. THOMAS. What is the difference in supervision given to the two by the Board?

Mr. BOYD. We have no supervision over the part 45 carriers. As long as they stay out of common carriage we have nothing to do with them.

We have at the present time a complaint which will be heard by the Board.

Mr. THOMAS. By common carriage you mean he will carry only a specific product?

Mr. BOYD. No; holding himself out to the public.

Mr. THOMAS. He can carry anything but it is a matter of private contract between himself and his customer?

Mr. BOYD. That is right, sir. We have a complaint before the Board now.

Mr. THOMAS. Supplementals have no regular schedule, but they are under the jurisdiction; they are certificated?

Mr. BOYD. Yes; that is right, sir.

Mr. THOMAS. How carefully do you observe them? Do you set the rates?

Mr. BOYD. The rates are all charter rates and they have to be filed with us, but as a practical matter, the level of the rates has been such that we have found no reason to.

Mr. THOMAS. What is the question involved in the economic study you are giving them?

Mr. BOYD. Whether they are——

Mr. THOMAS. Your economic study has one fundamental purpose, and that is rates, fares, and tariffs?

Mr. BOYD. Yes, sir; but our audit is where we exercise the bulk of our jurisdiction over the supplemental carrier, not the economic studies. Our audits go purely and simply to the question of financial fitness of the carrier.

In order to give you a complete picture, the supplemental carriers are qualified to do business with the Department of Defense and, in that area, we do specifically set the rates and we do it after a tremendous amount of study.

Mr. THOMAS. They do quite a bit of business with the Department of Defense?

Mr. BOYD. Yes, sir; running about 80 percent of their total.

FAA JURISDICTION OVER SUPPLEMENTAL CARRIERS

Mr. THOMAS. What jurisdiction does the FAA assume or what activity does it undertake in regard to the part 45 supplemental carriers?

Mr. BOYD. I am not sure of this, but I believe they exercise the same jurisdiction over both of them, which is total safety surveillance, which includes——

Mr. THOMAS. The same rules and regulations that apply to a regular scheduled airline applies to them?

Mr. BOYD. They have somewhat different rules but because of the nature of the operation——

Mr. THOMAS. I think the only difference in the rules is the question of inspection. They do not get around to them quite often enough. In the final analysis, that is about it, is it not; what is the difference, gentlemen?

Mr. BOYD. The safety standards are exactly the same, Mr. Chairman, and in the past couple of years the FAA has shifted some of its resources over into the supplemental area, more than it had in the past. The basic difference is that——

Mr. THOMAS. That comes about by inspection and testing; does it not?

Mr. BOYD. Yes, sir.

Mr. THOMAS. That is it.

Mr. BOYD. The basic difference is that under the Federal Aviation Agency requirements the scheduled carriers must have a dispatch service, which is licensed, or certificated, so to speak, by the FAA, but due to the nature of the supplementals' business of going from here to there today and somewhere else tomorrow, they are not required by the FAA regulations to maintain a dispatch service. That is the essential difference as I understand it.

Mr. THOMAS. I thought there was another difference. There was a question of inspection and testing. I thought that was really the meat in the coconut.

Mr. BOYD. No, sir, it is exactly the same.

Mr. THOMAS. The great deficiency, if there is any, and I think there is, is by virtue of the fact they do not have the requirements, which add up to as tight safety rules and regulations as the scheduled carriers have.

Mr. BOYD. They have tried in the past, because of the rather small operation of each one of these individual carriers, to have an inspector assigned to five or six or maybe seven carriers, when they were located at Miami, or Los Angeles, all on one base. What they have

done as I understand it in the last 2 years is try to get closer to assigning one or two inspectors to each carrier.

Mr. THOMAS. Is examination and licensing for the pilots and navigation the same?

Mr. BOYD. Exactly, not one bit of difference; also the maintenance standards, Mr. Chairman, the training requirements and recurrent training requirements for the crews. The supplementals tell us that the FAA has just been on their back day and night for the last 2 years, and in this connection I would like to point out that for the last 2 years the supplementals have had a perfect safety record, not one accident.

Mr. THOMAS. But you take some of the big accidents in Europe, over which we have no jurisdiction, and most of those accidents over there in the last 2 or 3 years have been what we call supplemental carriers, have they not? Take the last 2 or 3 years, if my memory serves me correctly.

Mr. BOYD. I would have to ask our safety people. I have a lot of accidents mixed up in my mind.

Mr. THOMAS. What was the big hockey team accident of 6 or 8 months ago?

Mr. GURNEY. The Olympic team?

Mr. THOMAS. Was that British, French, Norwegian or what?

Mr. BOYD. You are talking about a Norwegian accident. I was just trying to recall the accident. There was one.

Mr. THOMAS. Wasn't that what we would call a supplemental carrier?

Mr. BOYD. Yes, sir. The situation is a little different over there, Mr. Chairman, because the supplemental carriers in Europe by and large are affiliates of the scheduled carriers. They have subsidiary companies who do their charter work to a considerable extent.

Mr. THOMAS. I had the definite impression—I do not know how accurate it is—from newspaper accounts it is not under the Board or the FAA. Certainly it looks to me like their standard of testing and maintenance, I guess operation, is certainly beneath what is required in this country. Is that a fair statement?

Mr. BOYD. The standards vary. Generally, though, they are the same. They are essentially the same, at least in the Western European countries.

Mr. THOMAS. Are their schedule qualifications and standards?

Mr. BOYD. That is my understanding.

(Discussion off the record.)

Mr. BOYD. Of course, one of the things that happens is so often people make mistakes of judgment. This really does not have a great deal to do with training, Mr. Chairman.

Mr. THOMAS. You can go back to the operations of the pilot, navigator, the testing and training.

Mr. BOYD. They have more mountains to fly in Europe. They take better advantage of that opportunity than we do here.

Mr. THOMAS. Excuse me. Go ahead with your statement.

GROUP EXCURSION FARES

Mr. BOYD. We also approved group excursion fares for transatlantic travel providing for discounts of 38 percent below normal economy fares.

Out in the transpacific area, the Board forestalled an increase in fares by disapproving an IATA agreement.

Domestically, our achievements have been many. The Board approved reductions of up to 14 percent in first-class fares in numerous major markets, and new thrift fares in the Hawaii-west coast market that were 25 percent below lowest then available fares.

There have been a number of promotional fares approved since we last met with this committee.

FAMILY PLAN APPROVED

The Board approved application of family plan to coach, business, and one-class services for the first time at a 25-percent discount from regular fares; disapproved a series of uneconomic family plans that threatened to precipitate a nationwide rate war; approved numerous individul and group excursion fares; approved various local service carrier "Visit U.S.A." fares, and approved military furlough standby fares at a 50-percent discount from jet coach fares.

With reference to domestic and foreign military charter rates, the Board reduced minimum rates for MATS foreign and oversea charters (pt. 288) to take account of lower operating costs of new turbine-powered aircraft. The Board also initiated action to explore feasibility of stabilizing rates for Logair and Quicktrans domestic cargo services.

In the 2-year period prior to January 1963, the trunkline carriers were faced with a chain of circumstances which put a severe strain on their financial resources. The wide expansion of jet fleets created an immediate overcapacity in services. Traffic failed to maintain historic growth rates. Consequently, the industry as a whole, for the first time in recent years, sustained red-ink balances in their profit-and-loss statements.

STRENGTHENING ECONOMIC CLIMATE

While some of its programs were initiated prior to January 1, 1963, the Board has been engaged since then in efforts to strengthen the economic climate of the industry. To this extent it has:

(*a*) established and pursued the area airport program which seeks consolidation at a single airport of services offered at two or more adjacent airports, where such action will provide significant economies in carrier operations with minimum inconvenience to the traveling public;

(*b*) initiated a review of markets having multiple competition, where such competition might produce excess capacity and prevent reasonably profitable operations;

(*c*) reexamined, or is preparing to do so, the authorizations of U.S.-flag carriers in foreign and oversea transportation to measure the impact of foreign carrier competition and, in light of such competition, the necessity of traditional point-to-point competition among U.S.-flag carriers in these areas;

(*d*) given priority consideration to route transfers and other trunk route adjustments necessitated by the changing character of their fleets.

While the emphasis has been placed on improving the carriers, improvements in service have not been neglected. The Board has heard

proposals for additional service in several large markets where competitive service had been eliminated as the result of the United-Capital merger.

LOCAL SERVICE AREA

In the local service area, the Board continues to furnish all local service cities with tabulations of average daily passengers originated. The Board has continued to set down for decision the need for continuation of air service at points not meeting the "use-it-or-lose-it" traffic standards. There were 88 points not meeting the standard as of September 30, 1963, a decrease from a level of about 130 2 years ago. Many of these 88 points are at issue in pending cases.

USE IT OR LOSE IT

Mr. THOMAS. What did you do with those 88 points that did not come up to your requirements?

Mr. BOYD. The first thing we do is establish the trends, Mr. Chairman, and if the community did not meet the standards but by the time the matter gets to the Board has approached the standards and the trend is upward——

Mr. THOMAS. What I am getting at, how much time do you give the community?

Mr. BOYD. We give them a minimum of 18 months after the service has started.

Mr. THOMAS. And when you make your first check, if they are not coming up to the yardstick laid down under your rule of use it or lose it, you notify them and then how much time do you give them?

Mr. BOYD. We give them, from the time service begins, we give them a monthly report of the passengers they originated at that community. They have that report for 18 months, each month. At the end of 18 months we start a proceeding and, of course——

EMPLOYEES ENGAGED IN USE-IT-OR-LOSE-IT FUNCTION

Mr. THOMAS. That is quite an expensive operation. How many employees do you have doing that work? That comes under the Bureau of Rates and Fares?

Mr. BOYD. We have got two different operations there, Mr. Chairman.

Mr. THOMAS. Where is that located?

Mr. BOYD. The Bureau of Economic Regulations handles the matter, but under Operating Authorities and Practices, I believe.

Mr. THOMAS. It is not under Rates and Fares?

Mr. BOYD. No, sir. The Office of Carrier Accounts and Statistics does all of the statistical work of preparing the reports.

Mr. THOMAS. That is in two Bureaus, Operating Practices, and Economics?

Mr. BOYD. No, sir, Office of Carrier Accounts and Statistics, which is under——

Mr. THOMAS. That is a subdivision. Under which one of your big activities is it?

Mr. BOYD. It is the statistical and research section of the Office of Carrier Accounts and Statistics, which is, of course, a major service

organization for the other bureaus of the Board, and it does the statistical work. Mr. Roth, how many people do you have involved in the use-it-or-lose-it reporting program?

Mr. ROTH. I believe in recent months we have gotten down to just a token, because of the mechanical assistance we get from the Office of Carrier Accounts and Statistics.

Mr. THOMAS. What do you call token?

Mr. ROTH. I believe we do not have as much as one man-year, one person spending full time gathering figures.

Mr. THOMAS. That is under your Bureau?

Mr. ROTH. Yes, sir.

Mr. THOMAS. What is it?

Mr. ROTH. This is under the "Routes and agreements division," part of the operating authorities.

Mr. THOMAS. Where is the other division?

Mr. ROTH. The Office of Carrier Accounts and Statistics which has our ADP machines.

Mr. BOYD. The Office of Carrier Accounts and Statistics is the big division, Mr. Chairman.

Mr. THOMAS. You do not have but 46 jobs in it altogether. How many do you have? That is where your work is done.

Mr. EVINS. You had about 130 situations a few years ago in which there was a question as to whether or not they were meeting the formula. Now that has been reduced to 88?

Mr. BOYD. Yes, sir.

Mr. EVINS. As to the remaining number between 88 and 130, did they ultimately justify the service or how many did you set aside?

Mr. BOYD. Some justified the service and some we eliminated. I will have to provide you with that figure, Mr. Evins.

(The information supplied follows:)

Substandard "use it or lose it" points, 12 months ended Sept. 30, 1961, versus 12 months ended Sept. 30, 1963

Number of points originating less than 5 per day during 12 months ended Sept. 30, 1961	128
Service ceased; CAB deleted or denied renewal	−21
Points at which traffic had increased to 5 or more per day during 12 months ended Sept. 30, 1963	−25
Points for which service authority continued but through area airport	−5
Points where traffic decreased from 5 or more during 12 months ended Sept. 30, 1961, to less than 5 per day during 12 months ended Sept. 30, 1963	+9
Points having substandard traffic during 12 months ended Sept. 30, 1963, but had not been served during 12 months ended Sept. 30, 1963	+4
Number of points orginating less than 5 per day during 12 months ended Sept. 30, 1963	90
Points deleted by the Board since Sept. 30, 1963	11
Points considered and continued by the Board in decisions issued in 1963	11
Points under consideration in formal cases at Feb. 19, 1964	40
Number of points of the 90 not acted upon or under consideration by Feb. 19, 1964	28

Mr. EVINS. The one questionable item in your budget is the subsidy

to the carriers. It is an enormous amount. Certainly the Congress wants to promote aviation and aviation safety.

There are 88 stations now that are in question.

Mr. BOYD. Mr. Chairman, the Office of Carrier Accounts and Statistics handles this program, use it or lose it, utilizing the computer between 15 and 20 hours per month. It is completely automated.

Mr. THOMAS. This Bureau of Statistics and Research Activities is how old? How old is the Board?

Mr. BOYD. We are in our 26th year.

Mr. THOMAS. You changed the name. What did you call it?

Mr. BOYD. What did OCAS start out as?

Mr. HORD. It was a division in the Bureau of Economic Regulations. We used to do the rates and accounting years ago. Then we became the Office of Carrier Accounts and Statistics.

Mr. THOMAS. When did you change it?

Mr. HORD. About 1950.

Mr. THOMAS. Go ahead.

AIR TAXI PROMOTION

Mr. BOYD. We also have programs for the promotion of air taxi operations. An air taxi guide to fares and services was published in December 1963 as a part of the Official Airline Guide representing a major new marketing tool. This action represented the culmination of closely coordinated work by the National Air Taxi Conference, trade associations and Government agencies to develop a program to promote the services offered by the noncertificated air taxi operators.

The genesis of this idea came from the Board, Mr. Chairman, as one of our efforts to promote aviation. It is something that did not cost us any money.

CARRIER SERVICES

I would now like to discuss the carrier services area. Public Law 87–528 empowered the Board to issue permanent certificates of public convenience and necessity for supplemental air service. Pending completion of formal proceedings involving applications for permanent supplemental certificates, the Board was authorized to review on an expedited basis the qualifications of supplemental air carriers holding authority as of the date of enactment of Public Law 87–528, and to issue interim certificates to those found qualified.

Three of the carriers found unqualified requested expedited proceedings on their applications for permanent certificates. The Board proceeded to hold hearings on these applications. During 1963 decisions were issued in two of the three affirming the earlier findings that the carriers are unfit to hold certificates.

The Board also concluded a landmark case in which it authorized a foreign air carrier to engage only in charter services over a specified route between the United States and Great Britain. The Board also has been engaged in proceedings involving applications of several other foreign carriers for similar authority. It is drawing near to conclusion of a case in which a number of U.S. carriers seek permanent authority to engage in transatlantic passenger charter transportation.

MAJOR PROBLEMS FOR 1965

Now I would like to mention some of the major problems that will be before the Board in 1965.

1. The Board feels transpacific fares are higher than required to support profitable and efficient operations and will exert every effort to persuade the U.S. carriers to reduce them.

2. At the present time there is no binding IATA agreement in effect on fares to and from the United States. IATA will hold a conference in the fall of 1964 to review and/or negotiate fares applicable on a worldwide basis for a 2-year period beginning April 1, 1965. Cargo rates, applicable on a worldwide basis, will also be considered at this conference. The Board will encourage U.S. carriers to press for the lowest fares and rates consistent with reasonable carrier earnings under efficient and economical management.

3. The Board will inquire into the domestic fare structure situation with a view to establishing more definitive fare policies. The fare structure issues include the appropriate relationship of fares among various classes of services, the proper role of family fares, and updating the Board's domestic coach fare policy.

4. In view of the conversion from high-cost piston aircraft to low-cost turbine-powered aircraft the Board will reexamine current service airmail rates in transatlantic and transpacific operations to determine what revisions should be made.

5. Alterations in MATS domestic and foreign charter service requirements, as well as the new minimum rates set by the Board, will require Board implementation in fiscal year 1965.

6. Now that a healthy financial climate has been largely restored in the industry, the Board will face increasing demands for additional services. While most of the major markets in the country enjoy two-carrier or three-carrier competition, there are a few areas without a single carrier or competitive service. The jet age, of course, has necessitated a new look at the application of traditional standards for such services.

7. The statement of policy regarding international aviation, approved by the President on April 24, 1963, has created policy modifications and recommendations which will undoubtedly result in an increased workload.

PROGRAMS TO CONTINUE

Many programs previously initiated have not been completed and work will continue on such programs as:

(*a*) Reduction of multiple competition on domestic routes where such competition appears uneconomic.

(*b*) Review of the need for U.S.-flag point-to-point competition in the international area.

(*c*) Guidelines for determination of local service versus trunkline route authorizations.

(*d*) Advisability of direct competition between subsidized and nonsubsidized carriers in domestic and oversea markets.

7. The Board will consider major proposals which contemplate changes in the business relationships between ATA and/or IATA carriers, on the one hand, and their passenger sales agents, on the

other. These includes the ATA area settlement plan and the IATA bonding program.

8. In his transportation message of April 5, 1963, President Kennedy recommended that Congress "should declare as a matter of policy that through routes and joint rates should be vigorously encouraged, and authorize all transportation agencies to participate in joint boards." In this connection, the Board along with the Federal Maritime Commission and the Interstate Commerce Commission will examine closely the role of the Railway Express Agency in the through movement of property.

The Board itself will give consideration to certain existing agreements between REA and various airlines relating to the through movement of air-surface traffic.

9. Legislation has been enacted authorizing all cargo carriers to engage in passenger charter transportation and establishing the supplemental air transportation carriers as charter specialists. Coupled with this legislation, changes have taken place in the operations of the combination route carriers since regulations governing their charter operations were adopted. These factors prompted the Board to issue a proposed regulation which would, if adopted, substantially alter the charter authority of the several classes of air carriers.

JOINT BOARD—CAB, ICC, AND MARITIME COMMISSION

I would like to go back to this Joint Board business for a moment, Mr. Chairman, and sort of blow our horns a little bit. The Chairmen of the ICC, Federal Maritime Commission, and CAB have been workliaison committees among the staffs of our three agencies. We have tried to develop some common costing approaches, some common regulations on matters pertaining primarily to finance, and to eliminate duplication of audits where two of the agencies have jurisdiction over the same entity. This is particularly true in the area of airfreight forwarders. We think we have saved the businessmen a considerable amount of administrative burden by doing this.

Mr. THOMAS. Where does Commerce have any jurisdiction in airfreight forwarders? I notice there under your loans to your scheduled carriers, you state in the final analysis all you do is make recommendations and the ultimate authority is in the Secretary of Commerce.

Mr. BOYD. I misspoke myself because I was referring to the Interstate Commerce Commission. The Interstate Commerce Commission has jurisdiction over surface freight forwarders, whereas, we have jurisdiction over airfreight forwarders. In many cases they are one and the same people.

Mr. THOMAS. You divide the forwarder in two parts. You take part and the Interstate Commerce Commission takes the other part?

Mr. BOYD. That is what the law does. But we have decided if we audit a forwarder, we will send our audit to the ICC, and they will not fool with that forwarder for that period.

Mr. THOMAS. That makes sense. That is quite a feather in your cap. Commerce has nothing to do with it?

Mr. BOYD. No, sir.

Mr. THOMAS. Where does Commerce come in on the loan guarantee program? What does the law say?

Mr. BOYD. On the loan guarantee program the law says that Commerce shall either approve or disapprove loan guarantee applications based on its own studies and on advice from CAB.

Mr. THOMAS. You have 27 people engaged in that activity?

Mr. BOYD. No, sir.

Mr. THOMAS. How many?

Mr. BOYD. We have three people.

Mr. THOMAS. How does that operate now?

Mr. BOYD. The loan guarantee?

Mr. THOMAS. Yes. Does the act give it to anyone except the Secretary of Commerce? How much time does he put on it? How much of a staff does he have? How many loans are you making or is he making this year? Whose money is it?

Mr. BOYD. It is the Government's money, it is your money.

Mr. THOMAS. It is back-door Treasury financing. Who takes it out, the Board or the Secretary of Commerce?

Mr. BOYD. It is a guarantee.

Mr. THOMAS. I understand. Have you picked up some of the guarantees?

Mr. BOYD. No, sir; there has never been a default.

Mr. THOMAS. Not a one?

Mr. BOYD. Not a one.

Mr. THOMAS. I am thinking about the railroads. You are right.

Mr. BOYD. We have enough problems with the airlines. Don't give us the railroads.

Mr. THOMAS. When we get into your rates and fares, we are going into it in some detail. What was the thought in Congress putting that final word in Commerce when it is purely an air matter? What is the philosophy behind it?

Mr. BOYD. The philosophy, as I understand it, was this was not a regulatory matter and, therefore, it should not be in a regulatory agency.

Mr. THOMAS. Certainly, it is an integral part of your rate structure problem. Certainly, it is regulatory in that sense, it affects rates. It is your sole responsibility to fix rates.

Mr. BOYD. It affects subsidies more than it affects rates. We made the pitch as hard as we could, but we were not persuasive.

Mr. GURNEY. It is a guaranteed loan.

Mr. THOMAS. Is the philosophy that it is a loan, does not affect rates, does not affect subsidies, and is purely a guarantee?

Mr. BOYD. It is purely a guarantee, but I think the philosophy is purely and simply that the Board should be limited to regulatory matters in which it is supposed to have some expertise and the approval of a loan guarantee or disapproval of a loan guarantee is not a regulatory matter in the sense that routes, rates, and fares are.

Mr. THOMAS. It goes back to routes, rates, and fares.

Mr. JONAS. Will the chairman yield?

Mr. THOMAS. Yes, surely.

Mr. JONAS. It might possibly be that the committee was looking at the experience of the ICC with some of their rail guarantees and thought this should be at Cabinet level. Do you think that had anything to do with it?

Mr. BOYD. No, sir; we had administered that program for 5 or 6 years, since its inception. Nobody has ever defaulted under our operation.

OUTLINING CARRIER ROLES

In so doing this the Board would further delineate the roles of the combination carrier, the all-cargo carrier, and the supplemental carrier with respect to charter business and cargo "blocked space" arrangements. The major objective of the policy is to assist the all-cargo and supplemental air carriers in their respective roles as cargo and charter specialists.

10. There are pending a number of applications seeking permanent certificates of public convenience and necessity to perform supplemental air service. Major attention of the Board will be focused on processing these cases.

11. The Board also faces during the coming year a major policy decision concerning grant of air freight forwarder authority to long-haul surface carriers of household goods.

PAYMENTS TO AIR CARRIERS

Now with respect to our second appropriation, "Payments to Air Carriers," we estimate an appropriation of $82,824,000 for 1965. This appropriation is of the no-year liquidation of contract type and is, therefore, to provide the Board with the funds required to pay subsidy to the carriers as the subsidy becomes due.

Subsidy payments are estimated at $82.8 million in 1965, a reduction of $2.7 million compared with estimated payments of $85.5 million in 1964.

Consistent with the limitation in the subsidy appropriation language for fiscal 1964, subsidy for the three helicopter operators serving the Chicago, Los Angeles, and New York metropolitan areas is budgeted at $4,300,000 for 1964. A total of $3 million is requested for fiscal 1965.

HELICOPTER SUBSIDIES

The three helicopter operators have been operating under an open rate for the period starting July 1, 1963, and have received temporary subsidy. Last Friday, the Board issued a show-cause order which proposes final subsidy rates for these operators aggregating $4,300,000 a year, based on its determination of such rates in accordance with section 406 of the act and the limitations in the appropriation act for fiscal 1964.

In order for these three carriers to live within the $4.3 million rate which we have proposed for fiscal 1964, they must, in our view, contract their volume of service. On the basis of our present knowledge of the facts, we believe that any further significant contraction below

the levels of service to which they must reduce for the current fiscal year would render the helicopter experiment of little value.

The order which the Board issued on Friday would be made effective for an indefinite period. In other words, it would be effective for a period which will extend into fiscal 1965 and beyond. This is unless, as until, it is challenged by one or more of the carriers or reopened by the Board on its own initiative. We decided on this course of action because termination of the rates for the helicopter operators at the close of the fiscal year for which they were being established has tended to impair the stability of the carriers and their opportunity to plan ahead for the conduct of required services on a sound economic basis. Another factor, as explained earlier, is that $4.3 million subsidy per annum will in any event support a minimal level of operations. This will mean that an annual governmental obligation in the same amount will exist on a continuing basis by virtue of Friday's order unless reopened by the carriers or the Board.

BOARD COUNSEL OPINION

It has been the opinion of the Board's Counsel that the limitation on the helicopter subsidy appropriations by Congress in fiscal years 1962 through 1964 do not constitute an amendment or modification of the standards of section 406 of the Federal Aviation Act.

As a result, unless action is taken by Congress to amend the act, the Board must necessarily continue to be guided by such standards and principles in carrying out its duties and responsibilities. If the promulgation of subsidy orders—including last Friday's order—pursuant to section 406 results in subsidy claims by the helicopter operators in excess of the amounts appropriated by the Congress, we believe that the Board would be obliged to seek a supplemental appropriation, or alternatively, the operators would be entitled to pursue their remedy in the Court of Claims to recover the amounts of subsidy due them over and above the amounts appropriated to the Board.

I have gone into this in some detail, Mr. Chairman, so that you had the committee would have a clear understanding of where we think our duty lies in carrying out the intent of Congress as expressed in the Federal Aviation Act of 1958 and the appropriation acts.

Mr. THOMAS. That sounds to me like a hand engraved invitation to come in—hand engraved and personally delivered. Go ahead.

Mr. BOYD. The estimate of subsidy accruals, which are the amounts due the carriers under final subsidy rates and on which the payment estimates are based, shows a reduction of $1.8 million from $85 million in 1964 to $83.2 million in 1965.

DOMESTIC TRUNKLINE SUBSIDY

Subsidy accrual of $3.7 million is projected under the domestic trunkline category to sustain the New England services of Northeast Airlines, Inc. This represents the subsidy rate established by the Board for Northeast in October 1963 in conjunction with its decision not to renew the services of that carrier south of New York. The $3,700,000 is solely for the New England regional services. All other domestic trunklines are expected to continue to be subsidy free in 1965.

LOCAL SERVICE SUBSIDY

Subsidy accrual for the 13 local service carriers is estimated at $67 million in 1965, compared with $67.8 million in 1964, a reduction of $800,000. The 1965 estimate of $67 million includes a full year of operation of the new routes recently awarded to Trans-Texas. Excluding this factor, the 1965 estimate is some $1 million less than the estimate for 1964.

The 1965 estimate is tentative at this time as the Board and its staff are currently reappraising and reassessing the economic needs of the 13 local service carriers for the purpose of establishing a new class subsidy rate during 1964.

The level of subsidy estimated for all Alaskan services shows a favorable trend from the 1963 level of $9,467,000 to $9,225,000 estimated for 1964 and $8,614,000 for 1965. This decline is anticipated essentially as the result of the significant upward trend in mail volume, based on Post Office Department estimates.

Increased payments for mail services serve to reduce the carriers' subsidy need in substantially the same manner as any other source of commercial revenue. However, the actual subsidy for both 1964 and 1965 may prove to be significantly higher depending upon current and future developments in requirements of the two subsidized carriers providing service between the Pacific Northwest and the State of Alaska.

The two carriers serving the State of Hawaii are estimated to require the same amount of subsidy in fiscal 1965 as currently estimated for 1964—$886,000 each year. These estimates assume that third-carrier services, authorized by the State public utilities commission in 1963 but enjoined by the Federal District Court of Hawaii in mid-1963, will not be reinstituted, and that the carriers' use of four-engine equipment for expanded traffic needs will have a beneficial effect on their operating requirements.

That concludes my statement. I will attempt to answer any questions you may have.

Mr. THOMAS. That is an excellent statement. Do any of your brother Commissioners have any observations to make to us? We are certainly delighted to listen to all of you. This is very interesting and very helpful to the committee.

Mr. GURNEY. Mr. Chairman, the only thing I would say is that the Chairman has mentioned the fact that I intend to go back to South Dakota at the end of the year. This is my final chance to talk to your committee.

FINANCING THE SUPERSONIC TRANSPORT

I would say that with some more jet planes to be purchased by our air carriers—they do cost money, as we all know from the records of the last 5 years—in fact, there was much concern at the time the trunk carriers did purchase the jet planes, there was the thought that there was not enough traffic to pay for them. It took about 3 years before they developed enough traffic to get on a profitable basis. They are still purchasing these jetplanes. There are the new short-range planes in the domestic field, the big cargo planes for the certificated transcontinentals, and now we have the SST supersonic coming in, which is anticipated may cost as much as $30 million per copy.

There has been some discussion about how they are going to finance it. We do know that it is a pretty nice thing to have equity capital with the air carriers, possibly the increased prices of airline stocks on the New York Stock Exchange may attract some new equity capital. I do not know.

Nevertheless, anticipating the purchase of these planes, we may run up into——

Mr. THOMAS. Can they put up 25 percent like Mr. Halaby is trying to get them to do?

Mr. GURNEY. They possibly can.

Mr. THOMAS. Broken down between the airframe people and the engine people?

Mr. GURNEY. I do not know about that. I do not know whether you are alluding to whether or not the manufacturer of the plane is going to put up 20 percent. I am talking about the air carriers themselves who are going to use the plane.

Mr. THOMAS. Of course, I think the original plan was for the manufacturer to foot at least 25 percent of the research and development cost.

Mr. GURNEY. Twenty-five percent.

Mr. THOMAS. The original figure is around a billion dollars, but I understand it has been upped $200 or $300 million. The airframe manufacturer and the engine manufacturer demurred and said they cannot put up more than 10 or 12 percent. The other part of the financing would come out of the user, the certified carrier.

Mr. GURNEY. That is the one I am speaking about and am concerned about at the moment, the user of the airplane, when and if they come into being. Therefore, I have some hesitancy to endorse completely the statements made in the presentation by our chairman. Take the program for this coming fiscal year, to carefully look at rates with the intention that lower rates be charged people traveling on the airlines. I do not want these rates to be unreasonably high, but I do want the rates to stay high enough so that the carriers can not only take care of their present obligations, which are huge, but also keep themselves in a stable condition in order to build up a reserve so that they can purchase these new planes that I think are absolutely coming. They should be allowed to retain reserves in order to buy them without Government guarantees.

Mr. THOMAS. I think your concern for the carrier is certainly justified and makes good common business sense, but look at the other side of the coin. Did not most of them start out with a prayer and the certificate the Commission gave them, a little beat-up equipment, a nice financial statement which was about nine-tenths water and one-tenth cash. They all got rich. Look at Eastern.

Mr. GURNEY. What scares me is the prospect of the Government being compelled to guarantee the purchase of these huge airplanes for the trunklines that we now say are in fine financial condition. We must remember that Eddie Rickenbacker's airline presently does have a petition before our Board for subsidy. That case has not yet been handled by our Board. Also TWA for a number of years had some loss years and had an average return for 5 or 6 years of around 2 or 3 percent.

So my word of caution is that I would like to see the carriers kept in a healthy condition so that we would not be looking into the future for another huge Government guarantee on the supersonic plane.

Mr. THOMAS. You have not made but two loans, as I remember, to the big trunklines for equipment.

Mr. GURNEY. The Government has not made any loans to trunklines as far as I know, except Mackey, and we have guaranteed a loan to them.

Mr. THOMAS. I have in mind, I think, two which were none too large. Is that erroneous?

Mr. ROTH. You might be thinking of loans in the days of the Reconstruction Finance Corporation. There were a number of such loans such as Northwest Airlines. In the statute administered by the Board and now by the Secretary of Commerce, the domestic trunklines are not eligible for guaranteed loans.

Mr. GURNEY. The supersonic planes, if they could be financed the same as the present jetplanes have been, the banks could then with a proper financial statement from the trunklines, make a legitimate private enterprise loan.

Mr. THOMAS. I think everybody would join you in that hope. In the first place, is that 2,000-mile plane feasible?

Mr. GURNEY. That is not for me to decide, but I believe our technicians say it can do the job.

Mr. THOMAS. How about all the headaches that come with it? We have considered it in here several times. It looks to us as though it is inevitable and if we do not do it, the British and the French will.

Mr. MURPHY. I have nothing to add of any great substance. I think the essence of what Chan has to say is one that we would all agree with.

Mr. THOMAS. Fundamentally sound, yes.

Mr. MURPHY. Nevertheless, I believe we have to think of the public as well as the carriers.

Mr. THOMAS. The carriers have not done too bad.

That is very fine. We are delighted to have all our distinguished friends. We hate to see Commissioner Gurney leave us. He has been part of this committee for 15 or 20 years. I do not know how we will get along without him. We may move to South Dakota and room and board with him for a while.

I think the committee likes to discuss generally some of these problems of rates and fares, generally the problems involved. Mr. Evins, would you please begin?

Mr. EVINS. I was interested in the overall picture presented by the chairman, that the carriers are now in the black. They have been in the red for some time, but they are now in pretty healthy condition. Also that the Board has done an excellent job from the public traveling point of view persuading them to reduce rates. You have healthy carriers, you have reduced rates to the public. You have increased traffic and lowered the accident rate. This all looks very good, a very good report on the whole aviation industry.

LEVEL OF HELICOPTER SUBSIDY

The main concern on the budget before Congress is the subsidy we are having to pay to the carriers each year. This is continuing

Did we gain from your impression about the helicopter service that you were going to recommend a reduction in the helicopter subsidy?

Mr. BOYD. The purpose of elaboration on the helicopter subsidy was if the existing rate, which we have authorized, the rate of $4.3 million per year, continues through fiscal 1965 or into fiscal 1965, the $3 million appropriation for which we are asking is not going to be sufficient. I tried to make it clear that either the carriers or the Board can reopen that rate.

Mr. EVINS. You are trying to say that even though the Congress wrote a limitation on the amount, that they might file with the Board additional petitions for increased amounts and you would be compelled by another statute to pay it?

Mr. BOYD. That is about the size of it.

Mr. EVINS. In other words, the limitation is not effective?

Mr. BOYD. We are caught between two acts.

Mr. THOMAS. If you start this out as an experimental item, in your argument you meet yourself coming back from two directions. In the first place, how long does an experiment have to last? That is No. 1. No. 2, if it is an experiment, it is not permanent law. Certainly the limitation ought to govern what you can spend. If it is not permanent law by virtue of the fact that it is an experiment, how can you say it is binding upon you and that it is a debt against the taxpayer of the United States to the amount of money they expend?

That debt is the difference between the income and operating expense. Why should that be if it is an experiment? How long does an experiment have to last before ipso facto it becomes a matter of law? The Congress has not declared it a permanent policy, has it?

Mr. BOYD. No, sir, the Congress has not. I think under the circumstances, though, that as long as these carriers have a certificate it can be labeled experimental or whatever, but during the period of the certificate life they are entitled, as we read section 406 of the act, to their break-even need and to an element for taxes and profits. That has not been available for several years.

The question of when do you end an experiment is a very difficult one. Our judgment is that given a little flexibility or freedom, this experiment could be ended by 1966 or 1967.

Mr. THOMAS. I cannot imagine any more flexibility than they now enjoy.

MAIL CARRYING OPERATIONS OF HELICOPTERS

They started out as purely a mail-carrying operation, and they have just about forgotten about the mail-carrying operation now. It is a matter of ferrying passengers from one downtown airport to another. No one ever mentions mail, and that was the reason it was set up in the first place, to carry mail.

Mr. BOYD. I think they are carrying quite a bit of mail, Mr. Chairman.

Mr. THOMAS. You lose sight of that now. No one ever mentions that. Do they not still get a pretty good rate on the mail-carrying operation? In making the justification, nobody ever mentions mail any more, it is always passengers.

Mr. EVINS. Could you supply for the record the amount of the Post Office Department's payment for carrying the mail, and also include a column for the subsidy payments?

Mr. BOYD. For the helicopters?

Mr. EVINS. Yes.

Mr. BOYD. Yes, sir.

(The information supplied follows:)

HELICOPTER OPERATORS

Revenues—Source realized, by carrier, fiscal years 1959 through 1963

[In thousands]

CHICAGO

Fiscal year	Commercial revenue	Mail revenue	Subsidy	Total revenues
1959	$838	$37	$1,644	$2,519
1960	1,665	35	1,662	3,362
1961	1,661	36	1,887	3,584
1962	1,042	50	1,784	2,876
1963	352	11	1,178	1,541

LOS ANGELES

1959	$308	$128	$935	$1,371
1960	403	145	1,041	1,589
1961	404	162	1,074	1,640
1962	461	145	1,468	2,074
1963	1,001	134	1,803	2,938

NEW YORK

1959	$942	$49	$2,281	$3,272
1960	1,110	52	2,227	3,389
1961	1,215	52	2,577	3,844
1962	1,311	32	2,528	3,871
1963	2,109	28	2,019	4,156

HELICOPTER GROUP

1959	$2,088	$214	$4,860	$7,162
1960	3,178	232	4,930	8,340
1961	3,280	250	5,538	9,068
1962	2,814	227	5,780	8,821
1963	3,462	173	5,000	8,635

SERVICE MAIL AND SUBSIDY PAYMENTS

Mr. EVINS. I was interested in the statement that in the case of the Alaska carrier, because of the mail contract award, you would reduce the subsidy payments. I think you always must consider the payment for the mail-carrying contracts. I am sure you do that.

Mr. BOYD. Yes, indeed, we do. We will provide for the record the mail payments to the carriers and the total subsidy. How many years back would you like to go with that?

Mr. EVINS. I would say 10 years.

Mr. BOYD. All right. We take all revenues into consideration—passenger, mail, cargo, and express.

(The information supplied follows:)

Subsidy and service mail pay, all subsidized carriers, fiscal years 1954–65

[In thousands]

Fiscal year	Subsidy and service mail pay	Subsidy	Service mail pay	Fiscal year	Subsidy and service mail pay	Subsidy	Service mail pay
1954	$113,181	$58,418	$54,763	1960	154,063	65,737	88,326
1955	96,241	39,790	56,451	1961	185,335	72,735	112,600
1956	104,263	43,217	61,046	1962	205,019	80,877	124,142
1957	113,628	48,626	65,002	1963	225,157	84,179	140,978
1958	120,799	52,539	68,260	1964	240,181	85,011	155,170
1959	130,345	50,016	80,329	1965	251,737	83,200	168,537

Mr. JONAS. Would you yield right there?
Mr. EVINS. Mr. Jonas.

LOS ANGELES HELICOPTER OPERATION

Mr. JONAS. Why do you think they cannot make a profit in an operation like at Los Angeles, where they haul an enormous number of passengers? Is it too much overhead, too much cost of equipment, too much cost of operations? What is it, in your opinion?

Mr. BOYD. There are two big items as I see it. One is that they have too much overhead for a small operation. One of the things we have tried desperately to persuade the Congress and the Bureau of the Budget is that if they can have a chance to expand their operations, to limit their overhead on a unit basis, if they can have a chance to get the bugs out of this new equipment they have, at the same time doing what they are doing now or trying to do, get instrument flight qualification so they can improve the dependability of their service, we can come in to you and say, gentlemen, we think these fellows should be on their own. But as we keep contracting their service, we make it harder and harder.

Mr. JONAS. You could not expand that service in the Los Angeles area. They cover the whole southern part of California with that helicopter service, do they not?

Mr. BOYD. No, sir.

Mr. JONAS. A man had a map in here, and he had a very extensive operation.

Mr. THOMAS. He made 10 or 12 stops, did he not?

Mr. JONAS. He flew all the way from Los Angeles Airport up into the valley.

Mr. BOYD. Yes, sir.

Mr. JONAS. I forget the mileage, but it was a pretty substantial area he covered.

Mr. BOYD. He has the best route system and the lowest unit costs. Two of the problems Los Angeles Airways have are simply these. Due to the atmospheric conditions in Los Angeles, they get this smog early in the morning, and without instrument capability in their helicopter, even though they can see up to the sun, they cannot take their helicopters off the ground because FAA requires that where there is

cloud cover, they have to have instrument capability. This causes them to lose out now on some of the best time of day.

The second thing is that the machines they fly had trouble with the main gear. The manufacturer is committed to fixing the main gear, putting in a new gear, but it is a slow process to get the right kind of metal. I do not understand all this, but this is essentially the way the problem was expressed to me. They are having trouble getting the right kind of gear manufactured to give the equipment the type of reliability that it has to have and that the manufacturer warranted.

Mr. JONAS. Have you read our hearings when we had the helicopter operators in here and gave them a pretty thorough examination?

Mr. BOYD. Yes, sir.

Mr. JONAS. My recollection is they told us they needed another year of subsidy so they could buy new machines. I do not know how long they expect us to keep on.

Mr. BOYD. Mr. Jonas, let me say, if I may, I believe this. I do not think we feel at the Board any proprietary or paternal affection for these helicopter carriers.

Mr. JONAS. You have an act to abide by.

Mr. BOYD. Yes, sir. We are trying to be as completely objective as we possibly can. It is our view that if they are permitted to operate over a reasonable portion of their routes, they can spread their costs, they can develop their traffic, and they can go off subsidy. But if you keep contracting them, I say in all sincerity it is just throwing money away.

CONSOLIDATION OF TRUNK CARRIERS

Mr. EVINS. This leads to one further question I had regarding consolidations. With your consolidations of major lines, you indicated in your testimony that you were having applications for providing services to areas that had been eliminated by the consolidations. How extensive are these new applications and what do you propose to do about serving cities where service has been deleted by consolidations?

Mr. BOYD. We have a case. There is only one area involved. The only consolidation, Mr. Evins, that has affected trunk service was the merger of Capital into United. We have a case which is very close to conclusion on putting competitive service into points where the competitive service was eliminated by the merger. That case we started 18 months or 2 years ago.

Mr. EVINS. Is it a new carrier that has been created or an existing carrier that proposes to serve the area?

Mr. BOYD. There were about six or seven existing carriers who proposed to pick up the slack.

Mr. EVINS. I believe in some of these consolidations, they are proper and justified for efficiency and stability for making a sound carrier, having resources to operate, and so forth. There are many reasons, it seems to me, to be more feasible for consolidations of some air carriers than possibly in the case of the railroads.

SUBSIDY TO NORTHEAST AIRLINES

From observing from a distance your Northeast Airline case, it would seem to me the Board made the sound and proper decision be-

cause you testified here they have been in the red for a long time and now you have to subsidize them just to operate in the East. Is that the situation?

Mr. BOYD. Yes, sir.

Mr. MURPHY. We would have to subsidize a local service carrier to do the same job in New England anyway.

Mr. EVINS. If the Board finds in its judgment that a fine major trunkline carrier is not in good financial situation, say like Northeast, you can then provide it with subsidy to keep it alive and to keep it going? It was my understanding that you were not subsidizing the major trunklines.

Mr. BOYD. No, sir; we have not been. This raises a very interesting question, it seems to me. That is: Are we subsidizing the carrier or the communities that are being served?

Mr. GURNEY. May I interrupt, Mr. Chairman? Was not the subsidy voted, and our order says it shall be for the subsidizing of the local service in New England?

Mr. BOYD. That is right.

Mr. EVINS. Local service is Northeast, is it not?

Mr. BOYD. Yes, sir. We are subsidizing Northeast, and it is characterized as a trunk carrier. As I understand the law, there is nothing to inhibit a trunk carrier fom seeking subsidy.

M. EVINS. Is this the only trunk carrier that also has designation of a local carrier, a dual designation?

Mr. BOYD. Yes, sir.

POINTS SERVED BY NORTHEAST AIRLINES

Mr. THOMAS. How many communities does Northeast serve in New England?

Mr. BOYD. About 17 on a regular basis.

Mr. THOMAS. Can you name them?

Mr. EVINS. Boston, New York——

Mr. BOYD. Augusta, Bangor, Montpelier, Boston, Burlington, Hartford-Springfield, Hyannis, Lawrence, Lewiston, Martha's Vineyard, Nantucket, New Bedford, White River, Worcester, Manchester.

Mr. THOMAS. Some of those are 35 miles apart.

Mr. BOYD. Keene, N.H., Presque Isle, Maine.

Mr. THOMAS. That is local service because some of those points are not 35 miles apart.

Mr. BOYD. It is. One of the difficulties they have up there is that Vermont, New Hampshire, and Maine all have mountain chains generally running north and south. The service in some cases is only 35 miles apart, but they have bad roads and bad weather in the winter.

Mr. EVINS. This is an unusual carrier with an unusual situation in which you have a major trunkline carrier that is also certificated as a local service carrier.

Mr. BOYD. Yes, sir.

Mr. THOMAS. What type plane do they use on those short hops?

Mr. BOYD. They are using DC–3's.

Mr. THOMAS. That is the old workhorse.

Mr. BOYD. Yes, sir.

Mr. EVINS. No further questions.

Mr. THOMAS. Mr. Shipley, you are interested in aviation. Do you have any questions?

Mr. SHIPLEY. I have one question on the general statement. First I want to commend the chairman for a very impressive statement.

FAMILY PLANS

I am interested in page 11 of your statement. I would like to know what airline first initiated their application for the family plan and also on the straight one-class services, what airlines initiated this?

Mr. BOYD. United Airlines initiated one-class service. Today it is the only airline providing a single class service. My belief is that American initiated the family plan.

Mr. SHIPLEY. Would you tell me more about the family plans where you say it did threaten to precipitate a nationwide rate war? What airlines were involved?

Mr. BOYD. All major airlines.

Mr. SHIPLEY. Was Continental the leader in this?

Mr. BOYD. No; Continental was not the leader. It seems to me again American was the leader. Mr. Roth is the Director of our Bureau of Economic Regulation, and he has these matters at his fingertips more than I have.

Mr. SHIPLEY. You should be commended for this. I think this is very important to stimulating air travel. I know you must have had many problems to work out with these carriers to be able to do this. I was interested in what some of these problems were.

RECENT CHANGE IN FAMILY PLAN

Mr. ROTH. I think it is important to keep in mind that the family plan was radically changed in the middle of January. I think from the standpoint of the public and the industry alike in many respects the family plan today is a great improvement over what preceded it.

Specifically, since January 15 most of the trunklines now have a 25 percent family plan discount applicable to coach service as well as first class. That means that now husband and wife, traveling together on days in which the family plan tariff is available, have available a lower means of travel than heretofore.

On the other hand, before January you had a situation in which, with the husband and wife traveling and the family plan then confined to first-class service, 50 percent discount on first class, no discount on coach, husband and wife paid a cheaper rate if they traveled in the first class luxury section than in the coach section.

Mr. SHIPLEY. I realize this.

Mr. ROTH. This type situation was corrected in the more recent filings, and it seems to me the public now has a lower fare than heretofore because of the availability of the family plan tariff on coach and at the same time it is more economical from the standpoint of the carriers performing the service. I think in that sense the situation is radically improved compared to what it had been.

ONE-CLASS SERVICE

Mr. SHIPLEY. I think you should be complimented for working this out. Is there any indication that the other carriers may follow up on this one-class service? I think this is the only way to travel. It is very confusing to find out where you are going and how much.

Mr. BOYD. No, sir; we have seen no indication that the others are going into a single-class operation.

Mr. SHIPLEY. For the record, I have traveled this one-class service since it has been in effect. I think it is wonderful. I hope all the airlines will follow this procedure. It really simplifies going and getting a ticket and flying from here to Chicago or wherever you are going.

Mr. THOMAS. Is not that only a gimmick? Why should these rates be as high as they are? Let us go into the question of rates. If you come in with your family on Tuesday between the hours of 9 and 11—that is nothing but a gimmick. I cannot see that it is an overall bona fide offer to reduce rates.

The taxpayers put them in business and then subsidize them. The taxpayer nurtured them along, offered to guarantee the payments on the planes. The big operating cost is borne by the taxpayers. The taxpayers light the runway, put safety devices in, pay for the towers, pay for equipment. All they do is buy a little equipment and pay a few landing fees. It looks to me like the rates are all too high. Why can they not be reduced?

REDUCTION OF FIRST-CLASS FARES

Mr. GURNEY. I would like to have Mr. Roth tell about the reduction of first-class fares that went into effect.

Mr. THOMAS. You get in the back end of the plane, and it is 25 percent cheaper than the front. It is the same plane. If you fall, you all fall together. The meals are practically the same. They give you a little champagne up front. The only difference is when you get through. There is a difference in what? The champagne you get and a 25 percent increase in the price of the ticket. To go from here to Houston it cost me $110 one way, while getting in the back end it is $80.

Mr. BOYD. About 75 percent of first-class fare.

Mr. THOMAS. Why tolerate that? This is not Europe. We do not know anything about traveling first and second class. All this country ever has known is, you either ride in a pullman car on the railroad or you ride in the day coach. We do not know anything about that first and second class. Get on a steamship going from here to Europe, it is first and second class, but that is going to Europe.

Mr. BOYD. The situation has evolved from a purely first-class service with most of the trunk carriers being violently opposed to coach service. In 1953 about 20 percent of the available seats were coach. It was just coming in then. Today it is more nearly 85 percent. It would indicate that the public, given a choice, is much in favor of the coach.

Mr. THOMAS. They are seeking that lower rate. Call it whatever you want. That is what it is. They are trying to save a little money.

You put a little stigma on it, but they do not care about the stigma. They want the reduction. You go into the back end of the plane, second class, come out the front of the plane, first class, strutting. You are plus $30 for the same trip.

Mr. EVINS. Maybe the Board could infuse a little Henry Ford philosophy, mass production of the Ford, volume brings about a reduced rate.

Mr. BOYD. We try to do that day after day. We try to tell these people the way to maximize their profits is to increase their volume. It is not through boosting their fares. On the first-class travel, Mr. Shipley, there is both a congressional resolution and a Bureau of the Budget directive. The Bureau of the Budget directive requires that, except in certain limited instances, all travel be at less than first class.

Mr. SHIPLEY. I assume that must be when you call an airline and they say there is no more coach available and you have to go first class.

Mr. BOYD. Yes, sir.

Mr. SHIPLEY. I wonder how often this is true. I get caught in that situation quite often.

Mr. BOYD. It could be quite often going from Washington to Chicago because American has a very small coach section on its Electras.

Mr. SHIPLEY. Can you not do something about that?

Mr. BOYD. No, sir. The law does not permit us to.

Mr. SHIPLEY. It is rather a personal problem with me. When I go out, many times I have made reservations coach and end up getting there late and the coach is resold and I am sitting up first class for coach fare with no extra charge. I do not know whether it is legal.

Mr. BOYD. If there is an oversale, if it is the company's mistake, it is legal.

Mr. SHIPLEY. I am sure it would be. That is all the questions I have, Mr. Chairman.

Mr. THOMAS. Before we conclude our general session with these distinguished gentlemen, I hope Mr. Jonas and Mr. Shipley and Mr. Evins will go into the question of the general workload of the Board and see what their big route cases are. This has always been troublesome.

Some of these cases, through appeals, maybe through no fault of the Board, would last 2 and 3 and, some of them, 4 years. Let us go into some of these questions with the Board. Does anybody have any more questions?

Mr. JONAS. Mr. Chairman.

Mr. THOMAS. Mr. Jonas.

CAB AND FAA RESPONSIBILITIES FOR ACCIDENT INVESTIGATION

Mr. JONAS. I have just one. You may prefer to take it up when we get to Safety. I am familiar with the jurisdiction the Board has under this section of the act dealing with investigations. However, you have a divided responsibility, and the FAA investigates accidents in certain cases. Is that by order of the Board or assignment of that responsibility by the Board?

Mr. BOYD. Yes, sir; that is PN–13, which came about as a result of the Board's lack of personnel resources to do the work itself several years ago.

Mr. JONAS. You concluded that the FAA had unlimited resources, which is about a correct assumption I might add.

Mr. BOYD. They have more than ours. We have been trying to get our hook unhung ever since, without any success.

Mr. JONAS. There is bound to be some duplication of efforts, is there not, and lost motion? You have FAA charged with the responsibility of investigating accidents that do not result in fatalities and you have one other little difference there, a 12,000-pound limit.

Mr. BOYD. Yes, sir.

Mr. JONAS. Then the Board investigates all other accidents. You finally wind up with your investigators and FAA investigators at the same accident, do you not?

Mr. BOYD. Yes, sir; on major accidents. However, in those cases FAA works under our supervision.

Mr. THOMAS. Does not the act say that probable cause shall be established by the Board?

Mr. JONAS. That is right.

Mr. BOYD. Yes, sir.

Mr. JONAS. Even in the cases where the Board has transferred its authority to FAA, you still have to accept their findings of fact and make a determination of probable cause?

Mr. BOYD. Yes, sir.

Mr. JONAS. You say they do that under your supervision. They have their own supervisory force, too. It strikes me you have an extra layer of people involved.

Mr. BOYD. Of course, FAA response to this is that accident investigation of the light plane, nonfatal accidents is strictly an additional duty, that if this were all turned back to us, it would not save a man in the FAA because they are flight inspectors and things of that nature, and they just pull whoever happens to be closest apparently, and he goes out and fills out a form and asks questions, then sends the material in to the Board, and we take that material. If the information is complete, we make a finding; if it is not, we go back to the FAA and say, "How about finding out thus and so?" That is what happens on light plane accidents. Where there is a fatal accident, the Board is involved in every one of them.

On the major accidents, FAA comes in and participates on the Board's teams. There is no question in my mind about the legitimacy of what the FAA does in that case because they send specialists in on the big cases, by and large, to see if there is anything found on the site at the time which would lead them immediately to either ground some airplanes or take some action of that kind prior to the more methodical and thorough approach the Board takes in reaching the probable cause conclusion.

Mr. JONAS. Every investigation of an accident is bound to involve not only structural defects but operations and crew capability, and all those things; is that right?

Mr. BOYD. In the first instance, yes, sir.

Mr. JONAS. There is a direct responsibility of the FAA.

Mr. BOYD. Yes, sir.

Mr. JONAS. It strikes me that the act is inconsistent in the two sections. I do not know who ought to be doing it, but I cannot see much justification for both agencies being involved.

Mr. THOMAS. The operating people become judge and jury of their own activities. It does not ring a bell with me. Maybe the operating people, whose duty it is, ought to have this.

Mr. JONAS. Why do you bring FAA into big accidents that involve fatalities?

Mr. BOYD. I do not mean to be facetious, but we cannot keep them out. The law gives them the right to be in. I do not want to give the impression that we are not happy to have them. It is very helpful, for example, to have one of the FAA Boeing test pilots on an accident involving a Boeing aircraft, because he can give us a great deal of information that we would have to do some plugging around to find ourselves.

Mr. JONAS. I guess where you are considering a matter of safety, it is like a research program. You have 10 people researching 1 particular subject and 9 of them may fail. If one succeeds and it is important enough, I guess the whole cost is justified.

Last year Mr. Halaby told us, for example, that this Northwest airplane accident in Miami, the Board was there, FAA was there, Boeing was there, Northwest Airlines had their investigators. Were you not all falling over yourselves? How could all of you operate effectively?

Mr. BOYD. Absolutely not, Mr. Jonas. The others are there, but they are there to be of assistance. The Board has complete control of the accident investigation, and they cannot move a hand without the approval of our CAB investigator in charge.

Mr. JONAS. On the other hand, you cannot do anything about the ones where you find what is wrong. All you can do is recommend to the FAA.

Mr. BOYD. Yes, sir; that is right.

Mr. JONAS. It sounds like a loose kind of an operation.

Mr. BOYD. Before you came in, I was citing some statistics about the recommendations we have made, between 80 and 85 percent.

Mr. JONAS. You said about 85 percent of 18 of your recommendations were accepted. That is good reading. When you analyze that figure, it turns out they accepted 14 out of 18.

Mr. BOYD. That was for a very limited period. We are putting it on the basis of the annual.

Mr. JONAS. I understand.

Mr. THOMAS. Gentlemen, let us recess until 1 o'clock.

AFTERNOON SESSION

Mr. THOMAS. Gentlemen, will the committee please come to order?

BOARD MEETINGS

Let me ask you one or two general questions, if I may. Give us a quick rundown, Mr. Chairman, on the Board's activities. What are some of your main headings? How often does the Board meet? How far behind, if you are behind, are you, or do you consider yourself current with your workload? Tell us something about the activities of the Board. Do you have regular meeting days, regular submission days?

Mr. BOYD. We meet about three times a week on the average.

Mr. THOMAS. Do you have a regular schedule for meeting days or is that the call of the Chair?

Mr. BOYD. That is at the call of the Chair. We do it on the basis of calendared items, items calendared for Board discussion. A great deal of our work is done through notations and one or more members might want an item calendared rather than voting on it by notation, so as these build up we have calendar meetings of the Board and the calendar agenda is established through meetings of the members' assistants so that we do not get something on the calendar where a member is not prepared. Then, of course, we have meetings such as we had yesterday with the transpacific and transatlantic carriers, Post Office Department and Department of Defense, to discuss the procedures for attempting to reduce the mail rates. Then, occasionally we have emergency meetings which relate to somebody having to have something or thinking they do right away. Then we try to take care of that. But on the average we will have one meeting a week in executive session, where we try to reach decisions in cases that have been argued in the recent past. So we meet about three time a week on the average.

MAJOR ROUTE CASES

Mr. THOMAS. Do you have any big route cases pending?

Mr. BOYD. Yes, sir. We have got one—we have got two major cases.

Mr. THOMAS. I notice here under "Operating practices" on pages 24 and 26, you say:

> While there are a few areas in the United States without single-carrier or competitive service, the major markets in the country enjoy two-, three-, or four-carrier competition. As a consequence of the jet equipment program, which will be virtually completed with delivery of short-range jets in fiscal year 1965, the Board has had to modify the domestic trunkline route structure for all-jet operations. This endeavor has been given priority over new trunkline service proposals and is being implemented under several programs which will continue in fiscal year 1965, including regional airport cases; review of voluntary arrangements for transfer of smaller points and route segments from trunk to local service carriers; trunkline deletions; and review of markets or areas with multiple competition to determine if such competition is uneconomic. In addition, consideration will be given to the few areas where there may be a need for single-carrier service or first competitive service.

You list here foreign cases, international cases.

Mr. BOYD. The international case we mentioned.

Mr. THOMAS. What about your big domestic routes? What are they? You said you had two.

Mr. BOYD. I am sorry. I misspoke myself, Mr. Chairman. We do not have major domestic route cases today.

INTERNATIONAL ROUTE CASES

We have two major international route cases. The one we have listed here, the United States-Caribbean-South American investigation is nothing less than a mare's nest. We have got more complications in this case than you can imagine. We have got the Pan American Panagra antitrust complaint in the middle of that and the entire service to and from South America.

Mr. THOMAS. I do not understand why the Board gets involved in this so much. After all, whether a U.S. plane is permitted to fly over foreign soil depends not on action taken by the Board, but upon the foreign government and the other side of the coin is, of course, when the foreign government comes in here, the duties are reciprocal with that of the State Department. It is my understanding the State Department or rather the President of the United States enjoys the last say, but all the spadework and the hard work has to be done by the Board; is that about correct?

Mr. BOYD. Yes, sir.

CAB JURISDICTION OVER INTERNATIONAL ROUTES

Mr. THOMAS. How will these international cases bother you so much? You say on page 25 [reading]:

> Over the past several years, the Board has instituted investigations reviewing U.S.-flag services in every area of the globe. Major staff activity in all these cases will probably have been completed before fiscal year 1965 except in the Latin America area, where procedural action has been delayed pending expansion of the case to include Caribbean area applications and has been reconstituted as the United States-Caribbean-South American Investigation. In terms of number of issues and applications, it is the largest review of U.S.-flag international services in recent years. The proceeding should move to hearing in fiscal year 1964 and conclude in fiscal year 1965.

Why should that give you so much trouble? You do not tell them whether they can fly overseas. They have to get that authority from the foreign governments with which they deal.

Mr. BOYD. That is correct, but they also have to get authority from us. It does not make a hoot whether they get authority from Venezuela. They still cannot fly without authority from the CAB.

Mr. THOMAS. I understand you have to let them get out of the country.

Mr. BOYD. Yes, sir.

Mr. THOMAS. Why do you go at that so intently?

Mr. BOYD. There are two reasons, Mr. Chairman: One is, the Ashbacker theory, which makes it impossible for us to limit the case to the size case we could handle with our resources adequately and expeditiously; the other is that the Supreme Court of the United States said that the CAB has jurisdiction over the antitrust aspects of the complaints between Panagra, Pan American, and W. R. Grace & Co., which goes to the fitness of both Panagra and Pan American to hold certificates.

Mr. THOMAS. So it is a question of fitness and not operating at all, then, and where they operate.

Mr. BOYD. On the antitrust part.

SUMMARY OF BUDGET ESTIMATES

Mr. JONAS. Let us turn to the justification book. There is a very fine statement under the tab marked "Statement of Highlights Summary" which summarizes a good part of the opening statement of the chairman. Without objection, I think we ought to put this entire highlight statement in the record, because it sets out the high-

lights of the Board's activities and the justification. That will include pages 2 through 16.

(The pages follows:)

CIVIL AERONAUTICS BOARD—SUMMARY AND HIGHLIGHT STATEMENT, 1965 BUDGET ESTIMATES

The Civil Aeronautics Board is an independent regulatory commission, responsible for regulation of the economic aspects of U.S. air carrier operations, both domestic and international, and investigation and analysis of accidents involving civil aircraft.

The budget estimates of the Board for the fiscal year 1965 are summarized in the following table:

Appropriation	1964	1965	Difference, increase (+) or decrease (−)
Salaries and expenses (adjusted)	$10,228,000	$10,800,000	+$572,000
Payments to air carriers: (Liquidation of contract authorization), includes for 1964 a proposed supplemental appropriation in the amount of $5,000,000	84,000,000	82,824,000	−1,176,000
Total	94,228,000	93,624,000	−604,000

The Federal Aviation Act of 1958 states that the fundamental responsibility of the Board is to promote, encourage, and develop civil aviation and "an air transportation system properly adapted to the present and future needs of the foreign and domestic commerce of the United States, of the postal service, and of the national defense;" and in the exercise and performance of its powers and duties, shall consider as being in the public interest "regulation of air transportation in such manner as to recognize and preserve the inherent advantages of, assure the highest degree of safety in, and foster sound economic conditions in, such transportation, and to improve the relations between, and coordinate transportation by, air carriers; * * *"

SALARIES AND EXPENSES

As shown above, the Board is requesting an increase of $572,000 in its appropriation for salaries and expenses in 1965. This increase is to cover the addition of 12 positions for safety activities, increased costs to cover mandatory within-grade salary advancements and the additional one-half year's cost of pay increases, effective January 5, 1964, under Public Law 87–793, partially offset by the elimination of 26 positions in several areas of the Board's functions.

The justifications generally reflect needs related to an increased workload and, in most areas, increased productivity is indicated for both 1964 and 1965 over the experience of 1963. In this connection, the activity justifications include a new type of schedule showing the volume of workload receipts, workload completions, workload on hand at the end of the year and productivity ratios in terms of workload completions per technical position during each of the 3 fiscal years.

The workload of the Board reflects the continuing growth and changing characteristics of the air transportation industry and for the most part, is generated by developments in the industry and specific applications which are laid before the Board by industry sources.

The policies and projected program on which the budget estimates are based are set forth in the following paragraphs:

The award and control of operating authorities and practices

The major functions include (*a*) granting authorizations of various types to U.S. carriers to engage in interstate and foreign air transportation; (*b*) issuing permits to foreign air carriers authorizing them to engage in air transportation between the United States and foreign countries, and also authorizing the navigation of foreign civil aircraft in the United States for other purposes; and

(c) maintaining regulated competition by passing on mergers, acquisitions of control and interlocking relationships involving air carriers, and on contracts for cooperative working arrangements between air carriers. The Board also has jurisdiction over unfair competitive practices of air carriers and ticket agents selling air transportation.

In this area the projected program anticipates a continued high level output both of formal and informal proceedings but with a smaller staff. The projections therefore are based upon anticipated success in finding ways both to shorten or reduce the burden of proceedings as well as to provide additional areas of exemption from regulation where routine matters are involved.

The major program objectives and plans in this area are:

1. To continue the Board's program to modify the domestic trunkline route system to provide an optimum structure for all-jet operations;
2. Development of a program for processing the more significant route applications promptly;
3. To continue the program of formally examining regional airport possibilities;
4. To continue the use-it-or-lose-it program;
5. To continue the route realinement program for local service carriers;
6. To eliminate individual flight authorization procedure in most major areas;
7. To maintain a close surveillance over supplemental carriers;
8. To process promptly freight forwarder applications;
9. To undertake studies which will involve possible revision of Board policy with respect to entry into the freight forwarder field and with respect to forwarder financial responsibility.

Rates and fares

The major functions include (a) authorizing the payment of subsidy to certain air carriers where required for the development of an adequate air transportation system; (b) exercising jurisdiction over tariffs and the rates and fares charged the public for air transportation; and (c) establishing rates for the carriage of mail by air carriers.

The major program objectives in this area for 1965 include:

1. In the subsidy rate area:
   (a) Working toward a continuing reduction of the overall subsidy level in fiscal 1965, with additional substantial declines anticipated in 1966, 1967, and 1968.
   (b) Make further progress toward a current subsidy docket, which envisions that subsidy cases on hand by the end of fiscal 1965 will be about half the number on hand at the end of 1963.
2. In the commercial (passenger and property) rate area:
   (a) To keep current with the increasing flow of tariffs, complaints, agreements, exemptions, and petitions.
   (b) To reduce the backlog of pending rate and fare investigations.

International aviation agreements

The major functions include consulting with and assisting the Department of State in the negotiation, drafting, and interpretation of agreements with foreign government for the establishment, development, and maintenance of international air routes and services.

The President's April 1963 statement of policy regarding international aviation has created policy modifications and recommendations which will (1) result in an increased number of bilateral negotiations with foreign governments, (2) require an increase in scope of analytical preparation, (3) require analyses of origin and destination statistics exchange with foreign countries; and (4) require more detailed programing. This program also involves exploring the exchange of aviation benefits, other than route grants, or nonaviation benefits, whenever possible, for concessions of routes and air transport rights to the United States.

Economic enforcement

The work performed involves the handling of passenger and shipper complaints; the investigation of alleged or suspected violations; and the taking of enforcement action, formal administrative proceedings and prosecution in the enforcement action for the imposition of sanctions and achievement of compliance by informal courts.

Enforcement activity, in the past few years, has moved into new, complex, and diverse areas. This trend is expected to continue. In 1964 and 1965, it will be necessary to handle an increasing volume of work generated from outside sources; i.e., passenger and shipper complaints and complaints from competing carriers and other entities subject to Board jurisdiction. In addition, there are specific problems which will require extraordinary effort, including such cases as the *North Atlantic Rate-Cutting Investigation*, the complaint of *Hughes Tool Co.* v. *Metropolitan Life Insurance Co., et al.*, and the *Panagra-Pan American-Grace Investigation.*

Safety activities

The major functions include the investigation of accidents involving civil aircraft and reporting the facts, circumstances and probable cause thereof; ascertaining what will best tend to reduce or eliminate the possibility of or recurrence of accidents by conducting studies and investigations; and making recommendations to prevent accidents and promote safety in air navigation.

The Board's air safety program for 1965 is based on (1) continuation of efforts to improve the quality and efficiency of aircraft accident investigation, (2) continuation of accident prevention and safety promotion activities at approximately the 1964 level, (3) an increase in the number of public hearings in connection with accidents from six in 1964 to nine in 1965, and (4) training of the technical safety personnel to the extent this can be achieved in relation to the overall workload. It is planned that manpower equivalent to approximately 16.9 positions, an increase of about 7 positions over 1964, can be devoted to training during 1965. Keeping safety technical personnel abreast of the technological changes is one of the Board's most critical problems.

Other activities, essentially in support of the preceding substantive program areas:

The major functions include providing technical advice and assistance to the Board and staff in case proceedings; providing basic statistics; performing economic studies; preparing economic forecasts; making evaluations of air transport and other economic trends needed by the Board in planning and performing its regulatory and developmental functions; the design, prescription, and administration of uniform systems of accounts and reports; field audit of carrier accounts and records and desk audit of carrier reports; and the development and operation of a centralized automatic data processing system.

The major objectives for areas under this heading in 1965 are:

1. In the accounting regulations and audits area:

   (*a*) To liquidate the backlog of work in the electronic computer area which has accumulated during the 1963–64 conversion period. It is planned to program additional work areas on the computer during 1965.

   (*b*) The field audit program will be directed toward auditing all subsidized and nonsubsidized carriers on an annual basis, including the provision of information necessary for determining the financial fitness of the supplemental carriers, although some reduction in scope of audits may be necessary.

2. In the statistical and research area:

   (*a*) To fulfill essential requests of the Board and its staff for technical assistance in statistical and economic analyses required in formal proceedings, especially assistance in connection with hearing examiners' initial decisions and Board opinions, and in other Board programs;

   (*b*) To make wider and more effective use of electronic data processing to broaden the content and speed up availability of the basic statistics needed in the Board's work;

   (*c*) To convert the Board's three-passenger origin-destination surveys to an integrated program on a common basis and provide additional data needed by Board and industry users; and

   (*d*) To complete studies of air transport demand and long-range forecasts of passenger traffic and capacity, develop new series of seasonally adjusted traffic and capacity data, and undertake analyses of the potential impact of supersonic aircraft on airline profits and financial condition.

PAYMENTS TO AIR CARRIERS

Subsidy payments are estimated to total $85,478,000 during 1964 and $82,824,000 in 1965, a decrease of $2,654,000. However, the $85,478,000 for 1964 is $5 million more than the $79 million appropriated for 1964 after adjustment for the carryover from 1963 of an unexpended balance of $1,478,000. Therefore, a supplemental appropriation for 1964 is projected in these estimates in the amount of $5 million.

The decrease of $2.6 million in estimated subsidy payments during 1965, compared with 1964, represents a reduction of $900,000 for the nonrecurring costs of rates issued during 1964 that were applicable to past periods, a reduction of $1.3 million in subsidy requirement of the local service, helicopter, Alaskan and Hawaiian operations, an increase of $1.4 million to annualize the Northeast rate effective for only part of fiscal 1964, and an anticipated refund for past periods totaling $1.8 million.

The estimated subsidy accrual for 1965 of $83.2 million represents a decrease of $1.8 million compared with $85 million for 1964. The estimated subsidy accrual for local service carriers for 1965 of $67 million represents a reduction of $800,000, from the revised 1964 estimates. The estimate of $67 million for 1965 provides for a full year of operation of the routes newly awarded to Trans-Texas. Excluding this factor, the 1965 estimate is some $1 million less than the 1964 estimate.

The estimate for 1965 is tentative at this time in that: (1) it is based upon existing policies of the Board and does not reflect any increases or decreases that would stem from the implementation of the programs set forth in the Board's June 1963 report to the President, since the status of such programs has not been determined finally at this time; and (2) while the Board and its staff are currently reappraising and reassessing the economic needs of the 13 local-service carriers for the purpose of establishing a new final-class subsidy rate during 1964, the outcome of the subsidy proceedings in which the revised rate is to be established will not be known until a subsequent period of time. These two factors render the $67 million estimate a tentative one, subject to revision upward or downward to accord with further developments in these two areas.

Subsidy for the present three helicopter operations in 1965 is estimated at $3 million, or $1.3 million less than the amount appropriated for 1964. The three helicopter carriers have been operating under temporary rates since July 1, 1963. The Board's staff is currently exploring with the carriers, on an informal basis, the scope and character of operations which may be possible at a subsidy cost not in excess of $4,300,000 as specified in the 1964 appropriation act.

Civil Aeronautics Board—Summary of budget estimates, fiscal year 1965

Appropriation and activity	1964			1965			Difference, increase (+) or decrease (−)		
	Maximum number of permanent positions	Average number of all positions	Dollar cost	Maximum number of permanent positions	Average number of all positions	Dollar cost	Maximum number of permanent positions	Average number of all positions	Dollar cost
Salaries and expenses:									
Economic regulation:									
Personnel compensation and benefits	449	429	$4,560,600	436	425	$4,708,600	−13	−4	+$148,000
Other objects			552,200			594,100			+41,900
Total			5,112,800			5,302,700			+189,900
Safety activities:									
Personnel compensation and benefits	189	181	2,017,000	201	193	2,296,200	+12	+12	+279,200
Other objects			653,300			736,700			+83,400
Total			2,670,300			3,032,900			+362,600
Board adjudication, executive and legal staff activities:									
Personnel compensation and benefits	142	136	1,466,000	135	132	1,482,400	−7	−4	+16,400
Other objects			105,600			106,900			+1,300
Total			1,571,600			1,589,300			+17,700
Administrative services activities:									
Personnel compensation and benefits	106	102	760,100	100	98	760,400	−6	−4	+300
Other objects			113,200			114,700			+1,500
Total			873,300			875,100			+1,800
Recapitulation:									
Personnel compensation and benefits	886	847	8,803,700	872	848	9,247,600	−14	+1	+443,900
Other objects			1,424,300			1,552,400			+128,100
Total			10,228,000			10,800,000			+572,000
Net adjustment to base (see summary of requirements for detail)			+12,000						−12,000
Total appropriation	886	847	10,240,000	872	848	10,800,000	−14	+1	+560,000
Payments to air carriers: Total appropriation			79,000,000			82,824,000			+3,824,000
Grand total, all appropriations	886	847	89,240,000	872	848	93,624,000	−14	+1	+4,384,000

Salaries and Expenses

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	7,407	8,090	8,524
	Positions other than permanent	35		
	Other personnel compensation	49	117	98
	Total personnel compensation	7,491	8,207	8,622
12	Personnel benefits	548	596	626
21	Travel and transportation of persons	565	674	705
22	Transportation of things	13	21	22
23	Rent, communications, and utilities	272	290	318
24	Printing and reproduction	127	89	89
25	Other services	118	105	134
	Services of other agencies	55	84	110
26	Supplies and materials	100	102	109
31	Equipment	71	58	64
42	Insurance claims and indemnities	1	2	2
	Total costs	9,359	10,228	10,800
	Change in selected resources	−92		
	Total obligations	9,267	10,228	10,800

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	884	886	872
Full-time equivalent of other positions	5		
Average number of all employees	836	847	848
Employees in permanent positions, end of year	842	870	870
Employees in other positions, end of year	9	0	0
Average GS grade	10.0	10.0	10.1
Average GS salary	$9,178	$9,822	$10,068

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Economic regulation	4,647	5,113	5,303
2. Safety activities	2,349	2,670	3,033
3. Board adjudication, executive and legal staff activities	1,565	1,572	1,589
4. Administrative services activities	798	873	875
Total program costs, funded [1]	9,359	10,228	10,800
Change in selected resources [2]	−92		
Total obligations	9,267	10,228	10,800
Financing: Unobligated balance lapsing	158		
New obligational authority	9,425	10,228	10,800
New obligational authority:			
Appropriation	9,450	10,240	10,800
Transferred to—			
"Operating expenses, Public Buildings Service," General Services Administration (76 Stat. 728 and 77 Stat. 436)	−2	−12	
"Salaries and expenses, general administration," Department of Commerce (76 Stat. 936)	−23		
Appropriation (adjusted)	9,425	10,228	10,800

[1] Includes capital outlay as follows: 1963, $64,000; 1964, $62,000; 1965, $54,000.
[2] Selected resources as of June 30 are as follows:

	1962	1963 adjustments	1963	1964	1965
Stores	3		2	2	2
Unpaid undelivered orders	172	8	89	89	89
Total selected resources	175	8	91	91	91

Mr. JONAS. Summarizing that so far as dollars are concerned, the record shows that for 1964, for salaries and expenses, you had $10,228,000. You are asking for $10,800,000 in 1965, or an increase of $572,000.

Those increases are itemized in the summary statement and show that in the main they involve additional half year's cost of salary increases voted last year; that amounts to $194,000; mandatory within-grade salary increases, amounting to $172,400; increase of approximately 17 man-years of employment as a result of reduced lapses, $185,500; and $213,000 is for increased program activities; is that correct?

Mr. BOYD. Yes, sir.

NET DECREASE IN EMPLOYMENT

Mr. JONAS. You have a net decrease of 14 in employment.

Mr. BOYD. That is right, sir.

Mr. OSTERTAG. Will the gentleman yield?

Mr. JONAS. Yes.

Mr. OSTERTAG. In other words, Mr. Chairman, on the point that Mr. Jonas just raised, the increase is in part due to the creation of 12 new positions in the safety field, but it is offset to a certain extent by the elimination of 26 positions?

Mr. BOYD. Yes, sir.

Mr. JONAS. Any questions on this summary?

USE OF NEW SAFETY POSITIONS

Mr. SHIPLEY. Mr. Chairman, one question on the 12 new positions. What will they contribute to your safety activities other than what you have been doing? Will they just be a buildup of your entire program or what?

Mr. BOYD. They will provide seven people, Mr. Shipley, seven bodies for training, which we do not now have, so we will have seven people available to put into training, not necessarily the seven we hired, but free seven people from jobs for training, four for accident prevention activities and one to try to cope with the backlog in our safety analysis activities, accident analysis activities.

Mr. SHIPLEY. This will be a training program so they can go to the schools you have?

Mr. BOYD. Yes, sir.

NATIONAL AIRCRAFT ACCIDENT INVESTIGATION SCHOOL

Mr. SHIPLEY. One other question on the school, if I may. Who takes advantage of this school?

Mr. BOYD. As I stated this morning, we ran one prototype class to see whether we had the right curriculum and it was being properly presented.

Mr. SHIPLEY. I know you said that. I meant besides FAA employees or CAB employees, whatever it may be. What other groups in the Government take advantage of this.

Mr. BOYD. We have only run the one class. What we propose is that in the future, as the thing gets rolling, which it will start to do in March, we will then offer to permit members of the Armed Forces and foreign nationals who are involved in accident investigation and other private U.S. individuals who are interested, for example, ALPA, the Airline Pilots Association has advised us that they would like to put people through that school.

Mr. SHIPLEY. But as of today they are not in it.

Mr. BOYD. No. We are just getting cranked up. We are particularly concerned about getting foreign nationals in because one of the great problems we have in accident investigation is that a U.S. manufactured aircraft, or a U.S. operated aircraft sometimes crashes in a foreign country and then we are in some cases unable to get the information about it to a considerable extent, we think, because the foreign nationals who have the responsibility for accident investigation do not have the competence to do the job and they are not willing to let us come in to see their inadequacies, so if we can get them trained

to a level of competency where they won't be ashamed to have us see how they operate, then we think we will open up new vistas of information.

Mr. SHIPLEY. How many hours is this present school and when was the last class you had?

Mr. BOYD. I think it was 8 weeks—6 weeks.

COST OF SCHOOL

Mr. SHIPLEY. Do you have a figure on the cost, or what it costs per student?

Mr. BOYD. Yes, sir. I think we do. Mr. Allen, who is the Deputy Director of our Bureau of Safety.

Mr. ALLEN. Sir, we do not have a breakdown per student right now. The only breakdown that I can give you at the present time is the overall nonsalary fund required, $16,000 from the Bureau of Safety. The Federal Aviation Agency matches a like sum. Right now it is very difficult to cost out because there are several nonrecurring costs involved—training aids, things of this nature, that we are procuring. We feel that after about the second year of operation, our $16,000 will be reduced by half or three-fourths.

Mr. SHIPLEY. Would you bring that to the committee next year if you can, if you have a further breakdown on it?

Mr. ALLEN. Yes, sir.

INCREASE IN AVERAGE EMPLOYMENT AND DECREASE IN POSITIONS

Mr. OSTERTAG. Mr. Chairman, going back to salaries and expenses, it shows an average employment of 848 for 1965 as against 847 for last year. That actually is an increase of one for average employment, despite the fact that you are eliminating 26 positions and creating 12.

Mr. BOYD. That is right, sir.

Mr. OSTERTAG. How do you account for that?

Mr. BOYD. Because we are reducing the number of appropriated positions.

One of the things that is involved here is that we had 886 authorized and 872 maximum of positions. That was the base we worked from, the 872. That is set forth on page 16.

Mr. OSTERTAG. That is th maximum of persons.

Mr. BOYD. I said positions.

Mr. OSTERTAG. But that is not average employment.

Mr. BOYD. No, that is right.

Mr. OSTERTAG. Your average employment has increased by one?

Mr. BOYD. That is right, sir.

SUMMARY BY OBJECT CLASS

Mr. JONAS. While we are on that subject, let's put this summary sheet on page 18 in the record.

(The page follows:)

CIVIL AERONAUTICS BOARD—SALARIES AND EXPENSES, BUDGET YEAR 1965

Summary of estimated obligations

	Actual, 1963			Estimate, 1964 (adjusted)			Estimate, 1965		
	Maximum number of positions	Average number of positions	Dollar cost	Maximum number of positions	Average number of positions	Dollar cost	Maximum number of positions	Average number of positions	Dollar cost
Personnel compensation and benefits:									
Personnel compensation:									
Permanent	884	836	$7,490,855	886	847	$8,207,200	872	848	$8,621,600
Other									
Total	884	836	7,490,855	886	847	8,207,200	872	848	8,621,600
Personnel benefits			547,527			596,500			626,000
Total			8,038,382			8,803,700			9,247,600
Other objects:									
Travel and transportation of persons			554,697			673,500			705,200
Transportation of things			12,752			20,900			22,200
Rents, communications, and utilities			271,296			289,900			318,100
Printing and reproduction			89,125			88,600			88,600
Other services			148,160			189,400			244,400
Supplies and materials			101,845			102,500			108,800
Equipment			49,426			58,000			63,600
Insurance claims and indemnities			1,315			1,500			1,500
Total			1,228,616			1,424,300			1,552,400
Total obligations			9,266,998			10,228,000			10,800,000

Mr. JONAS. That is a summary of obligations for salaries and expenses. It shows the breakdown there, as mentioned by Mr. Ostertag, average number of positions last year, 847, estimated average number this year, 848, which is an actual increase of 1 but when you consider it on the basis of appropriated positions, the figures are slightly different.

Mr. THOMAS. Gentlemen, off the record.

(Discussion off the record.)

INCREASED TRAVEL COST

Mr. JONAS. While we are looking at page 18, it is interesting to note that every other object goes up. You are doing a lot of traveling. This increases from $554,000 in 1963 to $673,000 in 1964 to $705,000 in 1965. Why do you continue to increase travel?

Mr. BOYD. Yes, sir. That is one of the things that is bound to come about. As the operation grows, this comes about. Let me give you one example, Mr. Jonas. We have estimated this morning that we have saved for the American traveler $50 million this year on international fares, across the North Atlantic. Part of what we did in that connection was to make two trips to Europe to talk to the European governments, in addition to which we had one or two observers at three IATA conferences, all of which were held outside the United States, so we did expend more money.

If you look at it on a return basis, I think the U.S. citizen got a pretty good return for that money. Also, a portion of this obviously goes to safety and we are as you can imagine vitally interested in what happens to American aircraft wherever there is an accident, so we are sending people out when there are accidents; also we have aircraft in operation in the United States that were manufactured abroad, and when something comes up we sometimes have to send some of our people to the manufacturing plant to set up tests and things of that nature.

INCREASED COST OF COMMUNICATIONS

Mr. JONAS. Your communications are up, too. What are you doing, telephoning more?

Mr. BOYD. That is primarily the GSA switchboard charge. The GSA charges have gone up. This is set forth in detail in each one of our subheadings.

Mr. JONAS. Is this increase attributable entirely to that? Do you have any increase in rents or utilities?

Mr. BOYD. There is a slight increase——

Mr. JONAS. In utilities?

Mr. BOYD. Yes, sir. I think that is primarily what it is, the GSA.

Mr. JONAS. You reimburse GSA. That is the GSA building, most of it?

Mr. BOYD. Yes, sir.

SUMMARY BY ACTIVITY

Mr. JONAS. Let us put page 19 in the record.
(The page follows:)

Analysis by activities

Budget activity	Actual, 1963	Appropriation, 1964 [1]	Additions	Total estimate, 1965
1. Economic regulation:				
(a) Operating authorities and practices	$908,325	$998,900	$27,300	$1,026,200
(b) Rates and fares	877,436	955,400	25,000	980,400
(c) International aviation agreements	247,062	265,900	5,100	271,000
(d) Economic enforcement	363,659	385,600	20,400	406,000
(e) Hearing activities	556,338	573,700	24,500	598,200
(f) Accounting regulations and audits	1,324,067	1,472,400	63,800	1,542,200
(g) Statistical and research	399,595	460,900	23,800	478,700
Total	4,676,482	5,112,800	189,900	5,302,700
2. Safety activities	2,318,698	2,670,300	362,600	3,032,900
3. Board adjudication, executive and legal staff activities:				
(a) Executive staff activities	864,152	906,000	2,300	908,300
(b) Legal staff activities	606,876	665,600	15,400	681,000
Total	1,471,028	1,571,600	17,700	1,589,300
4. Administrative services activities	800,790	873,300	1,800	875,100
Total, all acivities	9,266,998	10,228,000	572,000	10,800,000

[1] Adjusted to exclude transfer to "Operating expenses, Public Buildings Service, GSA," $12,000.

COST OF ECONOMIC REGULATION

Mr. JONAS. This contains an analysis by activities. It breaks down your salaries and expenses by activities. Economic regulation accounts for about half of your total budget; is that correct?

Mr. BOYD. Yes, sir.

Mr. JONAS. You have seven subheads under that, operating authorities and practices, rates and fares, international aviation agreements, economic enforcement, hearing activities, accounting regulations, and audits and statistical and research, a total of $5,302,700, up substantially over 1963 and up a couple of hundred thousand for 1964, an increase in each one of those activities, I believe.

Mr. BOYD. That is salaries, Mr. Jonas, yes, sir.

Mr. JONAS. I understand, most of which is pay increase and the in-grade promotions to which you have already alluded.

Mr. BOYD. Yes, sir.

Mr. JONAS. That is a good table. It contains an analysis of those things.

OPERATING AUTHORITY AND PRACTICES

Mr. JONAS. Let's look at "Operating authority and practices." That is your first big activity under economic regulation; is that correct?

The purpose and objectives of this activity are set forth there in the first paragraph. I think it would be well to include that page in the record.

(The page follows:)

OPERATING AUTHORITIES AND PRACTICES

The Bureau of Economic Regulation performs the functions of this activity.

I. Purpose and objectives

To recommend action with respect to the authorization of routes and other services required by the scheduled air carriers, and the authorization of supplemental, charter, and indirect air carrier services, and with respect to agreements between air carriers, thereby providing for air route and service patterns, both domestic and international, which will further the economic soundness of the air transport industry; to assure proper competitive relationships in the aviation industry; to maintain the quantity and quality of services required by the public, the postal service, commerce, and the national defense; to assist in the economic integration of new and improved equipment and the development of new types of traffic and services; and to assure sound and economic supplemental classes of air transportation services through the regulation of such carriers and activities as: supplemental air carriers, air taxi operators, transatlantic and other charter services, and noncommon carriage flights by foreign registered aircraft.

For the fiscal year 1965, the major program objectives of this activity are (1) to continue the Board's program to modify the domestic trunkline route system to provide an optimum structure for all-jet operations; (2) to develop a program for processing the more significant route applications promptly; (3) to expedite consideration of merger applications; (4) to continue the program of formally examining regional airport possibilities; (5) to continue the use-it-or-lose-it program; (6) to continue the route realinement program for local service carriers; (7) to eliminate individual flight authorization procedure in most major areas; (8) to maintain a close surveillance over supplemental carriers; (9) to process promptly freight forwarder applications; and (10) to undertake studies which will involve possible revision of Board policy with respect to entry into the freight forwarder field and forwarder financial responsibility, and (11) to continue emphasis on the emergency preparedness function.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Permanent positions	98	98	94	−4
Average number of all employees	91.8	93.5	91.7	−1.8
Obligations:				
Personnel compensation and benefits	$859,067	$941,700	$963,600	$21,900
Other objects	49,258	57,200	62,600	5,400
Total	908,325	908,900	1,026,200	27,300

Mr. JONAS. Financial requirements show you have 94 people engaged in that activity, "Operating authorities and practices."

Mr. BOYD. Yes, sir. That is down four from last year.

Mr. JONAS. That is one of the places you made a reduction.

Mr. THOMAS. This is his biggest bureau.

Mr. JONAS. That is the biggest bureau. It will cost $1,026,000 to operate, an increase of $27,300, despite the fact that you reduced permanent positions by four.

Inviting your attention to page 23, Mr. Chairman, what is that note down there under "Justification, staff requirements"? You say:

Of a total of five positions formerly reported in this activity, three positions are now included in the administrative services activities as a result of establish-

ment of a central file function in the Office of Administration and two positions are included in the "Executive staff" activity.

Mr. BOYD. Yes, sir.

Mr. JONAS. Does that have anything to do with your decrease of four permanent positions?

Mr. BOYD. No, sir. The whole purpose of this is to say we took these five people out for actual 1963 and estimate 1964. They would have shown 103 there instead of 98, but we transferred those by virtue of establishing a central file system and all this means is that we wanted to give you comparable statistics.

Mr. THOMAS. Mr. Jonas, he charged a lot of economic activities against this Bureau. It feeds the information into this Bureau.

COMPUTER STAFF

How many people do you have and are they working on a computer or do they work manually getting out the information and compiling the information on the number of passengers, either landing or taking off at these local stops.

Mr. BOYD. That is all on a computer, Mr. Chairman.

Mr. THOMAS. How many people work on it?

Mr. BOYD. How many people work on the computer?

Mr. THOMAS. I mean on this particular aspect of the computer.

Mr. BOYD. The same number of people who work on the other programs on the computer. How many do we have?

Mr. HORD. Eighteen on the entire computer staff.

Mr. THOMAS. What part of that 18 would you allocate to this job?

Mr. BOYD. Twenty man-hours a month. I am sorry, 20 computer hours a month.

Mr. THOMAS. How many people is that?

Is it half of your 20 jobs, a third, or a fourth of them?

Did you say 20 jobs or 18 people?

Mr. HORD. There are about 20.

Mr. THOMAS. How many people on the computers?

Mr. HORD. Eighteen on the entire staff.

Mr. THOMAS. Would a third or fourth of them be involved in compiling this information on the computer?

Mr. BOYD. I think it is very difficult to figure it that way, Mr. Chairman. Actually less than one-half person full time on this single job.

Mr. THOMAS. How long have you had the computer?

Mr. HORD. A year and a half.

Mr. THOMAS. How many people worked on this particular job before you got the computer working?

How many people got on and off your local service carriers at the various locations?

Mr. HORD. That could be better answered over in BER.

Mr. THOMAS. That is where your bureaus overlap into this operating bureau. Go ahead, Mr. Roth.

Mr. ROTH. I believe, sir, we had two clerical people who were more or less full time in accumulating statistics for the use-it-or-lose-it program.

Mr. THOMAS. How many stops did they have to compute, out of your total number of how many feeder lines do we have in the country?

Mr. ROTH. Thirteen local feeder airlines.

NUMBER OF LOCAL SERVICE STOPS

Mr. THOMAS. How many stops are there? That applies to Alaska, too, doesn't it?

Mr. ROTH. Use-it-or-lose-it policy is on the basis applicable to the 13 local service airlines.

Mr. THOMAS. Not to the Alaskan carriers?

Mr. ROTH. Not as such.

Mr. THOMAS. Or the other one——

Mr. ROTH. I think there are something like 500 local service stations.

Mr. THOMAS. You mean stations or stops, and 2 people take care of the 500, then?

Mr. ROTH. There were about two people, I believe, who were full-time clerks in compiling these quarterly statistics on the number of passengers aboard.

Mr. THOMAS. And then when the information comes in every week or 30 days, how many people are there in addition?

Mr. HORD. We get traffic every 30 days.

Mr. THOMAS. If you had two regular employees when you received your traffic data once every 30 days, how many additional, if any, did you put on besides the two regular?

Mr. ROTH. I think we had these two people working full-time and it took them—it was a slow process——

Mr. THOMAS. Excuse me, gentlemen. That is all I want to know.

Mr. JONAS. We can all agree that there is considerable overlapping.

Mr. BOYD. No, sir. No, sir; I would like to explain this, gentlemen, if I may.

Mr. THOMAS. You may do anything that you want to in here.

Mr. BOYD. It is only because I am sure you all want to know what the facts are.

FUNCTIONS OF THE OFFICE OF CARRIER ACCOUNTS AND STATISTICS

The Office of Carrier Accounts and Statistics is our service organization. If you want to call it overlap, there is overlap, but it is not duplication at all because the function of that office is to compile and provide the statistics that the other offices need for their substantive work. This is the purpose of that office. It also has another function, which is auditing of the carriers, but in the computer section it is purely and simply to run the studies and provide the information that the other bureaus need for their substantive activities, so Mr. Roth, when his trial attorneys in a route case want some information, they forward a request to Mr. Hord's office and say, "Will you prepare these statistics for us." Then Mr. Hord programs that on his computer. It comes out of the computer——

Mr. THOMAS. How long has Mr. Hord been heading this Bureau?
Mr. BOYD. Since about 1946, I believe.
Mr. HORD. 1944.
Mr. BOYD. 1944.
Mr. THOMAS. He is your top economist, too, is he not?
Mr. BOYD. I do not know. I would rather let him—he is a very valuable man but I do not know whether he qualifies as an economist in his own judgment.
Mr. THOMAS. He is an economist and accountant, too. He has been auditing all of these books. I think he has been looking at them a little more carefully for the last 3 or 4 years.
Excuse me, gentlemen. Proceed.

INTERCORPORATE AGREEMENTS

Mr. JONAS. You follow this preliminary statement with a breakdown of the operating offices and this activity. You set out on page 24 a table showing the number of work units and positions assigned to trunkline and international route matters, local service route matters, et cetera, showing the utilization of your 94 employees. What do you mean by number of work units, 3,057 work units under acquisition of control in intercorporate agreement activity?
Mr. BOYD. These are applications or agreements—applications for control or agreements between aviation interests, which are filed with the Board for review and approval. This is primarily a conflict of interest situation.
Mr. JONAS. The work units set out in this table describe the workload of those activities?
Mr. BOYD. Each one of those is a separate application or agreement and some of them are very minor and some are fairly major.
Mr. JONAS. He has language describing the work in each of those offices continuing on through page 30. I do not see any point in listing in the record all of those tables, Mr. Chairman.
Mr. THOMAS. You are right.
Mr. OSTERTAG. It is pretty good information, though.
Mr. JONAS. It sets out the work of the operating authorities and practices offices all right. It is divided into trunklines, international route matters, local service route matters, three or four subheads under that.
Mr. THOMAS. Those bar figures in themselves do not mean a thing unless you spend a lot of time explaining them in narrative.

SUPPLEMENTAL AND SPECIALIZED AIR CARRIER AUTHORIZATIONS

Mr. JONAS. Supplemental and specialized air carrier authorizations—I think we are all pretty familiar with trunkline and international route matters and local service route matters, but supplemental and specialized air carrier authorizations you have not said too much about.
Mr. BOYD. That comes about under the law 87–528, where we were required to issue interim authority.

Mr. JONAS. That is a late amendment, too, 1962.

Mr. BOYD. Yes, sir.

Mr. JONAS. This is a new activity in fact, is it not?

Mr. BOYD. Yes, sir.

Mr. JONAS. I think it might be well to put the paragraph labeled 3, on page 27, and paragraph 4, on page 28, and paragraph 5, on 29, in the record.

(The pages follow:)

3. Supplemental and specialized air carrier authorizations.—This function involves the processing of applications for new and expanded supplemental air carrier authority, freight forwarded authority, and exemption from specific requirements of regulation governing air taxi operations. The workload and staff requirements for this function follow:

Number of work units	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Supplemental and other cases completed and in process (formal hearing)	8.0	8.0	7.0	−1.0
Forwarder, supplemental, and other carrier applications completed (without hearing)	91.0	64.0	64.0	.....
Position requirements:				
Hearing cases	3.7	5.3	5.3	.....
Informal applications	5.8	4.6	4.6	.....

Public Law 87-528, enacted by Congress in the summer of 1962, provides for permanent certification of supplemental air carriers. It is anticipated that major effort will be devoted to processing the certificate applications for supplemental air service. Initial steps have been taken to determine the most feasible procedure to follow in processing these applications; and the actual proceeding will begin late in fiscal 1964 and continue at least through 1965. Thus, the estimates for 1964 and 1965 include as four cases, very complex proceedings involving approximately 40 applicants seeking supplemental air carrier authority. These proceedings will require assignment of several attorneys and analysts. In addition to the expanded program for handling supplemental certificate applications, the Board is charged with a duty to maintain close surveillance over the supplemental carriers, including a continuing review of their financial fitness, insurance coverage, and ability to provide safe and adequate transportation services. The proper discharge of these responsibilities will require increased manpower to be assigned to this activity in fiscal 1964 and 1965. However, it is anticipated that this can be accomplished through reassignment of manpower now required to maintain the Board's program for issuance of individual flight authorizations.

Hearings in the *Air Freight Forwarder Authority* case, a case involving major policy decision with respect to entry of surface motor carriers into the airfreight forwarding field, were concluded in fiscal 1963, and Board decision thereon may be rendered around the beginning of fiscal year 1965. Decision in this case will bring to conclusion many applications that have been backlogged. In addition to processing formal and informal cases involving forwarder applications, it is planned to investigate possible revision of Board policy with respect to entry into the forwarder field and with respect to forwarder financial responsibility. These studies will be undertaken as soon as manpower is available and should be in progress no later than the close of fiscal 1964. This function is also participating in coordinated efforts, and will continue in 1964 and 1965, to identify and solve problems in aircargo development. Focus will be placed primarily on the role of airfreight forwarders, and other indirect carriers, especially REA, in the aircargo breakthrough. Problems of air-surface integration and direct surface carrier authorization for airfreight forwarding are now being explored to some extent in the *Terminal Area* case and the *Air Freight Forwarder Authority* case.

4. *Individual flight authorizations.*—This function involves the processing of applications for individual flight authorizations for applicants who hold no

authorization under sections 401 and 402 of the act. The workload and staff requirements for this function follow:

	Actual 1963	Estimate 1964	Estimate 1965	Increase
Number of applications completed without hearing:				
Foreign carrier 1108(b) permits	208	200	200	
Off-route charters by foreign air carriers	507	525	27	−498
Charter exemptions by certificated air carriers	9	8	8	
Exemptions by supplemental and certificated cargo carriers to conduct international passenger flights	58	56	56	
Total	782	789	291	−498
Position requirements	7.0	6.7	5.7	−1.0

With respect to individual flight authorizations, work is proceeding toward removing individual authorization procedure in most major areas. This has been temporarily achieved with respect to transatlantic passenger charters of cargo and supplemental carriers, and it is anticipated that the conclusion, by spring of 1964, of a formal proceeding (*Transatlantic Charter* case) may result in certificating some carriers and dropping others from this market. Following decision in the *Transatlantic Charter* case, action is planned to place off-route charters of foreign air carriers under a blanket system thereby removing this category from individual flight authorization. A reduction of one position is therefore projected for 1965.

It is also anticipated that additional applications for foreign air carrier permits authorizing charter service only will be processed, following the pattern established in 1963 by the Board's decision in granting such a permit to Caledonian Airways Ltd. Portions of part 207, pertaining to charter trips of U.S. certificated route carriers, are under review, particularly with regard to whether restrictions applicable to passenger-cargo and all-cargo route carriers should be modified in view of Public Law 87–528. A notice of proposed rulemaking should be issued in fiscal 1964, and work on this project is expected to continue in fiscal 1965.

5. *Acquisition of control and intercorporate agreement activities.*—This function involves reviewing and preparing recommendations on applications for approval of acquisitions of control, applications for approval of interlocking directorates, and agreements between an air carrier and any other common carrier affecting air transportation. The workload and staff requirements for this function follow:

Number of work units	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Hearing cases completed and in process	3	4	4	
Nonhearing cases completed:				
Interlocking directorates and control cases	57	55	55	
Major agreements	279	244	246	2
Other agreements	918	893	876	−17
Blanket exemptions	79	73	76	3
Stockownership reports	1,783	1,800	1,800	
Total	3,116	3,065	3,053	−12
Position requirements:				
Hearing cases	1.2	0.9	0.9	
Informal matters	13.3	13.0	12.4	−0.6
Emergency preparedness function	1.0	1.0	1.5	+0.5

During the past fiscal year, further progress has been made in reducing the backlog of section 412 agreements to 358 at the close of 1963. Although statistically, the number of pending agreements is declining, considerable work remains to be done, particularly on individual industrywide arrangements stem-

ming from air carrier trade association actions. We propose to direct primary attention to such arrangements during fiscal years 1964 and 1965. Within the area of association matters, the airlines' programs affecting related industries, e.g., travel agents and forwarders, have required considerable effort in the past, and we expect that they will continue to do so principally because of the antitrust implications. Otherwise, emphasis will be placed on major traffic agreements, especially those which by their terms are made subject to prior Board approval. It is estimated that with the further reduction in backlog planned for 1964 the workload projected for 1965 can be handled with a staff of approximately 12.4 positions compared with 13 in 1964 and 13.3 in 1963.

Mr. JONAS. What did you start to say, Mr. Boyd? I interrupted you.

Mr. BOYD. This supplemental and specialized air carrier authorization has come about primarily as a result of Public Law 87–528 and involves all of the supplemental air carriers now in this country as well as some not operating, companies——

Mr. JONAS. The law requires you issue certificates to permit such operation?

Mr. BOYD. Yes, sir.

INDIVIDUAL FLIGHT AUTHORIZATIONS

Mr. JONAS. You also are authorized to grant certificates for individual flight authorizations; is that correct?

Mr. BOYD. Yes, sir.

Mr. JONAS. Is that a pretty sizable activity?

Mr. BOYD. We are cutting down on the people in it.

Mr. JONAS. One body?

Mr. BOYD. Yes, sir. We are cutting down 15 percent.

Mr. JONAS. You say:

With respect to individual flight authorizations, work is proceeding toward removing individual authorization procedure in those major areas.

Mr. BOYD. That is right, sir. We are hopeful that we can complete a case on transatlantic charter authority which will provide certificate authority to U.S.-flag operators so they won't need individual flight exemptions, such as they have operated on in the past, with the exception of some seasonal exceptions we gave for four or five of the carriers.

INTERCORPORATE AGREEMENTS

Mr. JONAS. How intensive is your investigation of interlocking directorates, agreements between air carriers and other carriers?

Mr. BOYD. Well, it is very intensive in the sense that all such intercorporate interlocks are required to be approved by the Board, or the Board can waive jurisdiction, and they all have to be filed, I believe under oath, setting forth what the relationships are.

Mr. JONAS. You examine the statements filed and then if your suspicion is aroused, or if investigation seems indicated, you set a case down for investigation?

Mr. BOYD. Yes, sir.

Mr. JONAS. You had four in 1964?

Mr. BOYD. Yes, sir.

Mr. JONAS. How can you estimate you will have four in 1965?
Mr. BOYD. We are just going on the basis of what we had last year.
Mr. JONAS. How many people do you have working in that activity?
Mr. BOYD. We haven't got a breakdown on that. It is not a very major operation, though, in terms of people.
Mr. JONAS. I know, but where are your people listed who do that work? Is that the 13.3, shown on page 24?
Mr. BOYD. On page 29 we have got one person listed, or nine-tenths of a person on hearing cases; that is, the ones that would become formal cases.
Mr. JONAS. On page 24 you show 13.3 people. Is that not correct?
Mr. BOYD. Yes, sir; but that is——
Mr. JONAS. That is the total in that activity.
Mr. BOYD. That is right, sir.
Mr. JONAS. Fewer people than that are engaged in actual hearings?
Mr. BOYD. That is right, about one.

EMERGENCY PREPAREDNESS

Mr. JONAS. I think this concluding paragraph on page 30 setting forth the emergency preparedness activity under Executive Order 11090 should be put in the record, for the information of those who read it.
(The page follows:)

EMERGENCY PREPAREDNESS

Under Executive Order 11090, the President delegated certain emergency preparedness functions to the Board. The major functions to be performed during fiscal year 1965 include planning for an emergency period in the following areas: distribution of aircraft, economic regulation of war air service pattern matters, establishment of air priorities system for the entire Nation, assisting in evaluating requests for aircraft and supporting equipment needed during emergency conditions, and establishment of an executive reservist program. This will require an increase in the effort devoted to this activity equivalent to approximately five-tenths of a position.

Mr. THOMAS. Mr. Jonas, does he absorb that five-tenths of one position or does he get a part of that out of emergency preparedness in OEP?
Mr. BOYD. Except for you gentlemen nobody has done anything for us, Mr. Chairman.
Mr. THOMAS. You mean you do not get in on that overall program over in the Office of Emergency Planning?
Mr. BOYD. We get some assignments but no people or money.
Mr. JONAS. What will you do with this half man you list down there? Where do you get him?
Mr. BOYD. He is the fellow with which we do our halfway jobs, Mr. Jonas.
Mr. THOMAS. At least they absorb him. That is more than 12 other agencies do not do.
Mr. JONAS. That is right.

RATES AND FARES

Mr. SHIPLEY. Let the record show page 32, which explains the purpose and objectives of rates and fares.

(The page follows:)

RATES AND FARES

The Bureau of Economic Regulation performs the functions of this activity.

I. Purpose and objectives

To recommend rates, rate structures, and related practices and services of air carriers, including determinations of subsidy and of rates for carrying U.S. airmail, and make recommendations to the Secretary of Commerce as to Government guarantees of loans to air carriers for purchase of modern aircraft. The basic objectives of these activities are to insure a financially sound commercial air network, for commerce and national interest purposes, through passenger and cargo rate reviews, proceedings, and investigations, and to insure that the public will continue to derive the maximum benefit for each subsidy dollar, with the ultimate goal of reduction of the overall subsidy level by making steady progress toward a current subsidy docket and by continuing review, revision, and reduction of outstanding subsidy rates.

For fiscal 1965, the major program objectives of this activity are a reduction of the overall subsidy level in fiscal 1965 with additional substantial declines anticipated in 1966, 1967, and 1968; further increased staff productivity with progress toward a current subsidy docket, which envisions that subsidy cases on hand by the end of fiscal 1965 will be 26 as compared with 50 on hand at the end of 1963; to keep current with the increasing flow of tariffs, complaints, agreements, exemptions, and petitions in the commercial rate area; to develop factfinding procedures in the cargo rate area, including informal means for presentation of shipper views, to be employed in considering whether to investigate or suspend aircargo tariffs; and to reduce the backlog of pending rate and fare investigations.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Permanent positions	87	87	84	−3
Average number of all employees	83.1	83.1	81.9	−1.2
Obligations:				
Personnel compensation and benefits	$844,304	$919,600	$941,200	$21,600
Other objects	33,132	35,800	39,200	3,400
Total	877,436	955,400	980,400	25,000

Mr. SHIPLEY. It covers rates and fares. If I may quote, it says:

To recommend rates, rate structures, and related practices and services of air carriers, including determinations of subsidy and of rates for carrying U.S. airmail, and make recommendations to the Secretary of Commerce as to the Government guarantees of loans to air carriers for purchase of modern aircraft. The basic objectives of these activities are to insure a financially sound commercial air network, for commerce and national interest purposes, through passenger and cargo rate reviews, proceedings, and investigations, and to insure that the public will continue to derive the maximum benefit for each subsidy dollar—

That is a very worthwhile program, I will tell you—

with the ultimate goal of reduction of the overall subsidy level by making steady progress toward a current subsidy docket and by continuing review, revision, and reduction of outstanding subsidy rights.

The financial requirements are $980,400 for 1965, compared to $955,400 for 1964, which is an increase of $25,000. The majority of this increase is $21,600, which is for personnel compensation and benefits, which has resulted by the elimination of three positions, to offset the

cost of within-grade salary advancements and increased pay costs, pursuant to 87–793.

The majority of what is left is about $3,400 and I understand this increase is for travel expenses. There is something else in there; isn't there?

Mr. Boyd. GSA telephone.

STAFF REQUIREMENTS

Mr. Shipley. Let's put in the record pages 33 and 34.

(The pages follow:)

Justification of staff requirements [1]

	1963		1964		1965		Position increase
	Number of work units	Positions	Number of work units	Positions	Number of work units	Positions	
Subsidy rates and guaranteed loans	73	33	106	33	108	31	−2
Commercial rates	50,674	50	50,646	50	53,746	49	−1
Overall rate program direction		4		4		4	
Total		87		87		84	−3

[1] Of a total of 6 positions formerly reported in this activiy, 4 positions are now included in the "Administrative services" activity as a result of establishment of a central file function in the Office of Administration and 2 positions are included in the "Executive staff" activity as a result of a consolidation of certain support functions in the Office of Secretary. The data for fiscal year 1963 has been adjusted to put it on a basis comparable with the data for 1964 and 1965.

The 1965 staff requirement for the rates and fares activity totals 84, which projects a reduction of 3 positions from the staff allocation in 1964.

1. *Subsidy rates and guaranteed loans.*—The basic objective in this area is the reduction of the overall subsidy level by review of outstanding subsidy rates for reopening, processing, and downward revision; and a concurrent, steady progress toward a current subsidy docket. Progress toward a current docket consists of an orderly programing of old past period cases, with the eventual goal of closing out such cases, and the processing and closing of newly reopened cases at reduced subsidy levels without the lapse of an extended period of time.

The Board's program calls for a continuing reduction of the overall subsidy level in fiscal 1965 as compared with 1964, following a decline in 1964 from 1963 (exclusive of the subsidy which was commenced for Northeast's New England services early in fiscal 1964), with additional substantial declines in 1966, 1967, and 1968. Achievement of the program makes it an absolute necessity that there be a frequent reopening on the Board's initiative, and prompt closing by the Board of existing final subsidy rates in fiscal 1964 and 1965 and succeeding years, as well as continued steady progress in closing out the older cases.

The workload and staff requirements for this function are summarized below:

	Actual, 1962	Actual, 1963	Estimate, 1964	Estimate, 1965
Number of work units:				
Final subsidy rates:				
Issued	28	40	68	65
On hand, end of year	24	50	35	26
Temporary subsidy rates:				
Issued	8	5	5	5
On hand, end of year	2	0	0	0
Guaranteed loan matters:				
Processed	27	20	25	30
On hand, end of year	2	2	2	2
Conference waivers granted		8	8	8
Position requirements	41	33	33	31

Final stubsidy rates are fixed for an indefinite period into the future and bear no termination date. Accordingly, as the Board implements the various programs to reduce subsidy (e.g., suspensions under the use-it-or-lose-it policy, the award of profitable routes, etc.), the outstanding final rates must be reopened, processed, and reduced by a final rate order if a reduction is to be achieved. Thus, the forecast workload and estimate of cases processed envisages that, in addition to cases reopened by a small number of carriers for an increase in subsidy, there will be a substantial number of cases initiated by the Board for the purpose of reduction, and that the level of output of final subsidy rates will be substantially increased in fiscal 1964 and 1965 over 1962 and 1963, as shown below:

Fiscal year:	*Final subsidy cases processed*
1962	28
1963	40
1964	68
1965	65

In the face of this increased workload and output requirement, the Board is requesting only 31 positions for 1965, a decrease of 10 positions—or 24 percent—from fiscal 1962.

The combination of the projected increased output and the reduced staff will require even further sharply increased productivity in 1964 and 1965 as compared with 1962, as demonstrated in the following table:

Fiscal year:	*Completions per technical position*
1962	1.9
1963	2.5
1964	3.6
1965	4.0

Mr. SHIPLEY. To go back to page 32, there is a reduction from 1964 from 87 positions—87 positions to 84, which is a reduction of 3.

Mr. BOYD. That is right, sir.

Mr. SHIPLEY. That is in positions.

Pages 33 and 34 cover the justification of the staff requirements. Mr. Chairman, would you go in detail just a moment on the work units listed on page 33 and explain to me what this is, subsidy rates, guarantee rates, and the overall rate program?

Mr. BOYD. The subsidy rates—the work units of subsidy rates or guarantee loans in the case of subsidy consist either of an application by a carrier or an activity by the Board of its own to effect an adjustment in the existing rate of a particular carrier on subsidy and the guaranteed loan is an application for a loan or for a waiver of a loan. We have been occupied and expect to be for the future, the immediate future, on a great many, what we call ad hoc adjustments of the subsidy rates as a result of route changes, where we delete a community, or where we add a segment under our class rate program. This has an immediate effect on the payments to be made to the carrier and without making ad hoc adjustments, in a number of cases the carrier would either get a benefit or a burden that was not intended by the class rate, because it is based essentially on an existing system, and as that system changes there have to be changes made in the subsidy.

Mr. OSTERTAG. Will the chairman yield?

Mr. SHIPLEY. Yes.

SUBSIDY RATES

Mr. OSTERTAG. Mr. Boyd, I am confused with regard to the reference to the rate as it relates to subsidies.

Mr. BOYD. Yes, sir.

Mr. OSTERTAG. Can you define or describe where the relationship is or where the difference lies?

Mr. BOYD. Well, subsidy rate is a method of paying the subsidy. Does that give you an answer?

Mr. OSTERTAG. The rate in which you are making subsidized payments?

Mr. BOYD. As it applies to a carrier and that carrier's system.

We may authorize $4 million to a carrier and that is paid on the basis of rates that are calculated on the type of equipment operated and the number of stations it serves and the number of seats.

Mr. OSTERTAG. What is a rate in a case of that kind? Is it a formula?

Mr. BOYD. Yes, sir. We have a formula under which the carriers are now operating and we are trying to change the formula.

The formula is based on the equipment, it is based on the load factor, and it is based on the number of departures and the number of stations, or the number of departures from the stations.

Mr. OSTERTAG. I realize we are going to get into this whole question of subsidies later in the justifications so I do not want to muddy the discussion with regard to subsidies. The subsidy rate aspect is here before us. I am trying to associate it with subsidies or disassociate it, whichever the case may be.

Mr. BOYD. Let's look at it this way: Maybe this will help clarify it some. Each year the Congress appropriates a total sum of money for subsidy. We have to have some method whereby that subsidy is paid to the carriers, so the method that we have evolved is a formula which applies uniformly to the 13 local service carriers and we pay x cents per available seat-mile flown based on this formula, to the carriers and that, in general, aggregates the total requirement of the carrier for the system it has been certificated to serve, and those, the cents per seat-mile we pay, are called subsidy rates.

Mr. OSTERTAG. In other words, subsidy is applied by mileage rather than any other form?

Mr. BOYD. We have got really a very complicated formula.

Mr. OSTERTAG. I don't want to labor the thing, but go ahead.

Mr. BOYD. The formula is one that provides a dual scale of subsidy rates, by DC–3 equipment on the one hand and other equipment on the other per available seat-mile, with the unit rate—that is, the rate per seat-mile—decreasing as the actual daily departures per station go up. In other words, with more departures your unit rate decreases up to eight departures, after which there is no subsidy paid. This requires, of course, a calculation of load factor which should be generated, and if the carriers do not obtain the load factor which we have in the formula then they are losing money as they increase their departures.

GUARANTEED LOANS

Mr. OSTERTAG. Take guaranteed loans. There is where we make loans and you guarantee them; is that right?

Mr. BOYD. Well, the Government does, we don't. This is done through the Department.

Mr. OSTERTAG. You are the Government in this instance?

Mr. BOYD. No, sir; not the Board.

Mr. OSTERTAG. Why is this in here?

Mr. THOMAS. They changed the law on us about 1½ or 2 years ago.

Mr. OSTERTAG. In other words, the Department of Commerce represents the Federal Government with regard to guaranteed loans.

Mr. THOMAS. These people now do all the work. They used to do all the work and be the guarantor, too, but the Department of Commerce is the guarantor now but the Board does all the work.

Mr. BOYD. We are required to advise the Department of Commerce.

Mr. OSTERTAG. Is there a fund that they use to make good these loans as they might default?

Mr. BOYD. No, sir. There is a provision in the statute that loans can be made to subsidized carriers of an amount up to I believe $10 million per carrier, but so far as I know, there is no money appropriated. There never was money appropriated to the Board.

Mr. OSTERTAG. Our committee chairman said you do all the work and they have the jurisdiction.

Mr. BOYD. Yes, sir.

Mr. OSTERTAG. Is that the sum and substance of it? What work do you do? Do they just take your say-so of what loans to make, or how does that work?

Mr. BOYD. In fact, no, they have not been taking our say-so, Mr. Ostertag, or our "say-no," I should say.

Mr. JONAS. At least you make the investigation and prepare a summary or analysis or a recommendation.

Mr. BOYD. We make a recommendation.

Mr. JONAS. Which the Secretary may reject or accept.

Mr. BOYD. That is right. We make a recommendation based on the study of the application and of the carriers' financial standing and a projection of the revenues the carrier will have so that we can say whether we think the carrier can pay off the loan.

Mr. OSTERTAG. Do they follow your recommendations or findings? You are policing this program, in other words, are you not?

Mr. BOYD. Sometimes they follow our recommendations and other times they don't.

The only requirement in the act is that they ask us for recommendations; not that they accede to our point of view.

Mr. OSTERTAG. I can only say, Mr. Chairman, to me it does not look like a good picture.

Mr. THOMAS. It sure doesn't. We talked about it this morning in your absence. We all agreed it did not look good. I hope the Legislative Committee will take a look at it and put it back the way it was.

Mr. THOMAS. You really haven't set up a separate bureau for rates. It is still rates and operating practices. It is still for all practical purposes under one Bureau under Mr. Roth, isn't it?

Mr. BOYD. Yes, sir. We haven't made any changes in organization since we were last here except to set up a central file section and a central docket section.

Mr. THOMAS. Go ahead, gentlemen.

COMMERCIAL RATES

Mr. SHIPLEY. Would you like to go ahead, Mr. Chairman, with regards to commercial rates and give us more information on why there is an increase in work units from 50,646 in 1964 to 53,746 in 1965, as you show on page 33.

Mr. BOYD. Yes, sir. These rates are the result of the constant shifting and changing on the part of the carriers to find rates and fares for either cargo, passenger, mail, or express, that will generate more traffic to them profitably. On page 39 there is a breakdown of the work units that is involved in this item of commercial rates.

Mr. JONAS. If you will permit me to interrupt, I saw that table and I was intrigued with it. The only thing you leave out there, you do not tell us how many of these rate increases you approve and how many you got down.

REDUCTION OF FARES

Mr. BOYD. I do not have that figure, but I can tell you that the vast majority of them have been on a downward trend.

Mr. JONAS. Is that true? I do not find that reflected in my airplane ticket purchases. Are rates going down?

Mr. BOYD. Yes, sir.

Mr. JONAS. All over the country?

Mr. BOYD. Yes, sir.

Mr. JONAS. I thought they were increasing.

Mr. BOYD. No, sir. The average yield to the carrier is down. Now the basic coach fare and the basic first-class fare in many sections of the country have remained the same, but these rates have gone down by virtue of new and different fares that are put in.

Mr. JONAS. Mr. Shipley, would you permit me to offer a suggestion and ask him to prepare a little table for the record showing some of the reduced fares that have gone into effect in the last 12 months?

Mr. SHIPLEY. Surely.

Mr. BOYD. Surely.

Mr. JONAS. Will you do that?

(The information supplied follows:)

Major fare reductions, 12 months ending Jan. 30, 1964

Effective date	Nature of reduction	Carriers	Markets	Reduced rates	Standard rate		Percent reduction	Comments
					1st class	Coach		
Mar. 1, 1963	Establish no-reservation fares on 1st class and coach service.	Eastern, Delta, and National.	Between Houston and New Orleans.	$19.05 day 16.19 night	$27.25 27.25	$20.80 20.80	8 to 30 2 to 41	
Mar. 10, 1963	Increased family plan discount from 33⅓ to 50 percent (1st class).	All trunks	Systemwide	Typical savings, dependents' fare:				The application of this discount was also extended from a 72-hour midweek period to all week except Sunday.

	Discount at—		Percent reduction
	33⅓ percent	50 percent	
New York to Los Angeles	$124.55	$93.45	25
New York to Chicago	36.50	27.38	25
New York to Dallas	70.70	53.03	25

Effective date	Nature of reduction	Carriers	Markets	Reduced rates				Comments
Mar. 17, 1963	Established standby fares for military personnel on leave at 50 percent of jet coach fares.	All trunks; certain local service.	do	Typical savings (round trip):				

	Jet coach	Standby military	Percent reduction
New York to Los Angeles	$290.20	$145.10	
New York to Washington	32.80	16.40	

May 18, 1963	Open-jaw group tour fares (10 or more passengers).	Delta	Between New York, Las Vegas, Los Angeles, San Francisco, and San Diego.	25 percent off standard coach fares.				This fare may only be used in connection with ground tour.
July 12, 1963	No-reservation fare extended to apply to 1st class jet service.	TWA	Between Philadelphia and Pittsburgh.	$15.24	$22.64	$19.50	22 and 33.	
Sept. 1, 1963	Established "Visit U.S.A." fares for Alaska in connection with current continental U.S. "Visit U.S.A." fares.	Alaska and all local service carriers except Trans-Texas.	Alaska and local service routes on continent.	$100 for 15 days; $200 for 45 days.				Restricted to foreign visitors and good for unlimited travel on the carrier's routes during 15- or 45-day time period.
Nov. 1, 1963	Established 3d class service.	Pan Am and United.	Between Los Angeles/San Francisco and Honolulu.	$100		133	25	
Dec. 1, 1963	Established no-reservation fare.	Western	Between Los Angeles and Las Vegas.	$11.43		18.25	37	
Jan. 15, 1964	Reduced 1st class jet and prop fares.	All trunks except Northeast.	Various points over 700 miles apart.	Typical savings (one-way):				
					Old	New	Percent reduction	
				New York to Los Angeles	$186.90	$160.90	14	
				New York to Chicago	54.75	52.30	5	
				Washington to Dallas	94.10	86.25	8	
Spring and summer 1963.	Excursion fares	National, Northeast, and Eastern.	Between Boston and New York and Florida points.	Various reduced excursion fares established by class of service with reductions from standard service of 13 to 22 percent.				

Mr. OSTERTAG. Are they by individual carriers or are they general rate reductions?

Mr. BOYD. The way that generally works, Mr. Ostertag, is that one carrier will file and then if there is any competitive impact, the carriers who are competitive will immediately come in and file the same, but there is always one carrier that is a leader.

Mr. OSTERTAG. Are you speaking primarily of trunkline carriers?

Mr. BOYD. Yes, sir. Of course, with the local service carriers, much of their operation is a monopoly operation, so there is no competitive effect in terms of competing airlines on their rate actions. They do, of course, have to be competitive with the trunkline carriers over the routes where their segments parallel.

RATES OF LOCAL SERVICE CARRIERS

Mr. JONAS. One other question on that point: Do you give any consideration or has the Board given any consideration to the rate schedule, the tariff used by feeder lines to determine whether in your opinion you would kill the goose that lays the golden egg by authorizing increased rates or getting those lines more self-sufficient? Does that enter into your consideration?

Mr. BOYD. Yes, sir. What we have tried to do with the subsidized carriers is to get them to raise their rates as high as we and they thought they could reasonably go without losing traffic and at the same time we have encouraged an excursion type of fare at a lower rate. If you live outside the United States today you can get the greatest bargain in the world by traveling on the local service carriers.

Mr. JONAS. That is right.

Mr. BOYD. I think 15 days for a hundred dollars, anywhere in the United States. This is good business for those carriers because their average load factors run less than 50 percent, so this is made money. Every time they are able to generate traffic that way it is made money.

Mr. JONAS. I do not see why generally the taxpayers ought to be taxed to provide undercost transportation for a limited number of people or a certain class of people in the United States. I can accept the principle to develop aviation from the beginning, but, as we were talking this morning, how long is an experiment going to last?

Mr. BOYD. Let me point this out to you, Mr. Jonas: With the local service carriers, they are charging full first-class fares for DC–3 operations, which is a pretty good chunk for a passenger to pay 7 or 8 cents a mile to ride in a DC–3 when, if he can get to a major airport, he can ride on a jet for less than that.

Mr. OSTERTAG. Have you had any experience in reduction in rates for local carriers? We were talking about reduction in rates a few moments ago. I asked if it would apply to trunklines and you said, "Yes."

Mr. BOYD. Yes, sir.

Mr. OSTERTAG. I am not sure whether it is clear whether local carriers have likewise reduced rates and have you been a party to that?

Mr. BOYD. Substantially, no. They have put in some special fares that I just mentioned, this "visit U.S.A. fare" for one.

Mr. OSTERTAG. That is something different.

Mr. BOYD. And a few fares like that.

REDUCTION OF STAFF—RATES AND FARES

Mr. THOMAS. Gentleman, may I interrupt just a moment? Somebody asked a while ago for a table showing the action of the Board in decreasing rates, one as to the subsidized carriers and the trunk carriers during the last 12-month period. This table on page 33 and 34 shows the workload and the positions for rates and fares. We have a total of 84 people this year against 87 last year. You have 31 for subsidy rates, and guaranteed loans. That is the local carriers. There are 49 for commercial rates. It appears to me that that employment figure ought to go down, Mr. Chairman. With all due respect to everybody, you set out a workload that may be meaningful, but I do not quite understand it. You show here that final subsidy cases processes—1962, 1963, 1964, 1965—range between 28, 40, 62, and 68. That does not mean much. What will have the meaning is that table? It should show what reductions have been made in the fiscal years 1963 and 1964 and what you contemplate in fiscal year 1965. Why can't this Bureau be reduced? It remains too constant. What occasions having 85 men rehash year in and year out a few little minor reductions, saying: "If you bring your wife and children and put them on my plane, from 9 to 4 on Wednesday of the week, you will get a 15-percent reduction." That is what it amounts to.

Mr. BOYD. It is not quite that.

Mr. THOMAS. You mean it is not quite that easy to get that reduction?

Mr. BOYD. No, sir. Let me point out to you now——

Mr. THOMAS. That, sir, is what is involved on this side of the table. You gentleman go on and straighten it out for the record.

DECREASE IN FIRST-CLASS FARES

Mr. BOYD. First-class fares have come down. This is average fare. In first class from the end of March 1961, it was 7.22 cents per passenger mile. It is down now to 6.73 cents. We are talking in terms of millions of passenger-miles, Mr. Chairman. This is not just a half a cent. It is a half a cent by several billions.

Mr. THOMAS. Let me interrupt you there. Every now and then I ride one of these local service carriers. I go from Chicago to the University of Iowa. I haven't found that fare going down any on that one plane that is as old as I am, and that makes it in excess of 14 years of age. I will bet it has been amortized at least three or four times.

Mr. BOYD. No, sir. That is because we are trying to keep the subsidy down as low as possible.

SUBSIDY STAFF

Mr. THOMAS. Why do you need that staff of 33 people figuring that out when you don't change it? If there is any change, it goes up slightly.

Mr. BOYD. On the subsidy rates, Mr. Chairman, this is trying to figure out the best way to pay the carriers. The subsidy rates are not the rates that the passenger pays. These 33 people or 31 people are involved in dealing with the carrier on the payment of subsidy to the carriers.

CARRIERS' AUTHORITY TO SET RATES

Mr. THOMAS. You give the carrier almost unlimited authority to set his own rates, or what he is going to charge the customer, don't you?

Mr. BOYD. The law does that, Mr. Chairman. We don't.

Mr. THOMAS. I mean, he has that authority?

Mr. BOYD. Yes, sir.

Mr. THOMAS. What you are dealing with here is what you are going to pay him?

Mr. BOYD. That is on the subsidy rates.

Mr. JONAS. You have quite a different problem on rates for subsidy carriers than the trunkline carriers that don't have the subsidy.

Mr. BOYD. That's right, sir.

Mr. JONAS. You are interested in getting rates down but you must consider trying to make these subsidized carriers self-sufficient, too, as soon as possible.

DISTINCTION BETWEEN REGULATION AND MANAGEMENT

Mr. BOYD. That's right, sir. Of course, we always run into this problem of where does regulation stop and where does management start. We have a lot of ideas about how they can run their airlines better than they are, and we tell them, but we can't put it into effect, and I would say that sometimes we are wrong in our judgments, but we give them all of the help and advice and suggestions we can.

In many areas where the local service carriers operate they are dealing with a captive market.

Mr. THOMAS. Doesn't the law give you any authority to tell that local service carrier what fare he can charge?

Mr. BOYD. The fare has got to be reasonable and reasonably related to the cost.

Mr. THOMAS. Who is the judge of "reasonable"? You have some authority here, because what he charges you ultimately is going to be reflected in what you have to pay him. You are bound to have some authority.

Mr. JONAS. Doesn't the authority come in because you set the rate of return he can earn?

Mr. BOYD. That is right, we do, but that is another thing altogether.

BASIS FOR SUBSIDY

Mr. JONAS. You base your subsidy. You say you will let these people earn 10 percent.

Mr. BOYD. Yes, sir.

Mr. JONAS. Your subsidy is based on whatever it takes from what their net operating income is to bring them up to 10 percent, you grant the subsidy. Isn't that the substance of it?

Mr. BOYD. That is right, as long as they operate in the manner which is prescribed. I am becoming a little confused because we have been pushing the local service carriers to keep their fares up, to cut the subsidy down, and what you gentlemen are telling me, I think, is that we ought to be urging them to get their fares down.

Mr. JONAS. I am not telling you that. I am not telling you to get them up. You had an example this morning in one section of the country where you said this local service carrier was the only means of transportation.

Mr. BOYD. Yes, sir.

Mr. JONAS. There comes a time when the rest of the country will probably get tired of subsidizing their transportation.

Mr. MURPHY. On a national scale there is a pretty good balance between or among all the sections of the country.

Mr. JONAS. That is true. A lot of people ride on airplanes but probably more people have never been in an airplane than have been in one, is that right?

Mr. MURPHY. That is true.

Mr. THOMAS. Yes, many more. I believe those are the statistics they publish.

INCREASE IN COMMERCIAL RATES WORKLOAD

Mr. SHIPLEY. Mr. Chairman, to go ahead with your commercial rates here, in 1963, you had 50,674.

In 1964 you had a small decrease. What is the reason for this projected, rather large, increase to 53,000, almost 54,000?

Mr. BOYD. We make projections based on trends, Mr. Shipley, and the trend has been up in the recent past.

Mr. SHIPLEY. You are going to go ahead and handle this projected increase with one less employee?

Mr. BOYD. Yes, sir.

SUBSIDY WORK UNITS

Mr. SHIPLEY. On page 34, Mr. Chairman, it gives us the number of "work units" and "position requirements," and also a listing of the final subsidy cases processed, and also the number of completions for technical positions required.

First let us take a look at the 1964 estimate of 68. It runs similar with that of 1965 under final subsidy rates issued, and on hand at the end of 1964 the cases were numbered 35, and you estimated in 1965 there will be 26 on hand; temporary subsidy rates issued are 5 in 1964 and 5 in 1965. You expect to not have any on hand at the end of the year. Guaranteed loan matters in 1964 were 25, and you had an increase of 5, making it 30 in 1965. You practically have none on hand. Conference waivers granted will be about the same in 1965 and in 1964. You will have a reduction of two positions.

Mr. BOYD. Yes, sir.

Mr. SHIPLEY. We were talking a while ago about the cases processed. Here on page 34 it shows the final subsidy cases processed. In 1964 it numbered 68. You expect this number to be 65 in 1965.

Mr. BOYD. Yes, sir.

Mr. SHIPLEY (reading):

The combination of the projected increased output and the reduced staff will require even further sharply increased productivity in 1964 and 1965, as compared with 1962, as demonstrated in the following table—

Would you go into this table just a moment, and the reason for the increase from 3.6 in 1964 to 4?

Mr. BOYD. We have just put more pressure on our people.

Mr. SHIPLEY. This is the economy drive?

Mr. BOYD. Yes, sir.

Mr. SHIPLEY. That is terrific.

Mr. BOYD. We are trying to find shortcuts, and hopefully our people are getting smarter as they get older.

Mr. SHIPLEY. We pretty well discussed commercial rates and guaranteed loans.

I think we will turn over to page 39.

RATES AND FARES WORKLOAD

Mr. Reporter, let the record show pages 39, 40, and 41.

(The pages follow:)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Number of work units:				
Screening of tariff filings	43,947	45,000	47,500	2,500
Tariff rejections	802	900	925	25
Special tariff permission applications	1,696	1,80	2,000	200
Processing tariff referrals and complaints on the merits	913	1,10	1,300	200
Formal cargo and passenger rate proceedings	39	40	40	0
Free and reduced-rate temporary exemptions	180	190	200	10
Service mail rate proceedings	8	7	6	−1
Rate agreements	728	700	750	50
Exemption applications	79	75	85	10
Position requirements	50	50	49	−1

The volume of work in this field is essentially beyond the Board's control since it originates in large part by statutory filings by carriers or other members of the public. The amount of IATA work has increased sharply during fiscal 1963, and we expect an acceleration of this trend in fiscal 1964 and 1965. The increased capacity for passengers and cargo provided by the new, large jet aircraft has resulted in more numerous and controversial fare and rate agreements than hitherto. Consequently, the instances in which economic data are required to substantiate rate changes are growing. The controversial nature of the fare and rate changes engenders growing requirements for correspondence and communication with travelers and shippers to reconcile conflicting views. Moreover, the mushrooming of small national airlines has tended to magnify past problems. Different rate philosophies among carriers and their governments add to the problem and necessitate more frequent and closer communication with representatives of foreign governments and the State Department. MATS foreign and oversea contracts are in the third and final year under options to renew, which expire June 30, 1964. Consequently, it appears that a new pattern of contracts will evolve in fiscal year 1965 that will in all probability increase the workload, since new combinations of carriers are likely to be involved and an important overhaul of policy guidelines may be required.

The processing of tariff referrals and complaints entails the analysis of substantive tariff filings and related complaints, followed by the formulation of recommendations for Board action with respect to the institution of fare and rate investigations and the suspension of tariff proposals pending investigations. Since Board actions on suspension matters are at least as important as any other aspect of its functions in the area of rate regulation, the staff's analysis of the factual, policy, and legal considerations related to tariff proposals is of vital significance. The number of these matters handled in fiscal 1963, 913, represents an increase of more than 31 percent over the preceding year and necessitated the assignment of additional personnel to this activity. Further increases in this important workload category are expectd in the future in line with the upward trend of tariff filings. Moreover, in the summer of 1963, the

Board amended its economic regulations to require carriers to submit detailed economic data and other information in support of their tariff filings. This added documentation will require intensive analysis to provide the Board with a sound basis for deciding whether to permit a tariff to become effective or to suspend its effectiveness pending investigation. Timely and careful analysis of substantive tariff filings and related complaints is, of course, the cornerstone of effective regulation by the Board in this area. Since, in the absence of affirmative action by the Board, tariffs become effective on the date designated by the carrier, and the Board's power to suspend pending investigation lapses once a tariff has become effective, it is absolutely essential that each substantive tariff filing and complaint be carefully reviewed promptly after its filing. It is clear that a procedure that permits tariffs to become effective prior to their analysis would result in many rates and fares being established that would be inconsistent with the public interest. Similarly, this would seriously undermine the Board's ability to discharge its statutory responsibilities to maintain fair and reasonable fare and rate structures. To keep pace with the upward trend of tariff filings and complaints, new methods must be developed to process this work on a timely basis.

Passenger and property rate investigations and service mail rate proceedings represent a work area that includes processing, through the various formal steps, the investigation of passenger fares, cargo rates, and related matters, as well as service mail proceedings. Some of these procedings involve the suspension of a tariff and, as such, are accorded a high priority so as to complete the proceedings within the 6-month maximum suspension period. Although a substantial number of the older cases have now been disposed of, the total backlog remains large by virtue of the institution of new investigations in the last year. Obviously, prompt resolution of the matters requiring investigation is in the interest of the carriers, the public, and the Board. Since many such matters involve controversies between particular carriers, the failure to expeditiously process investigations may result in a serious injustice to one or more of the persons concerned. Full exploration of the use of informal conferences, shortened proceedings, and limited Bureau participation in proceedings will be utilized in order to prevent increases in the backlog.

Rates and fares activity

Description and fiscal year	Workload flow				Personnel			Average completions per technical position
	Receipts during year	Completions during year	Adjustments	On hand end of year	Technical	Clerical	Total	
1. Subsidy rates and guaranteed loans:								
1963 actual	97	73	.....	52	29	4	33	2.5
1964 fiscal plan	91	106	.....	37	29	4	33	3.6
1965 CAB budget	99	108	.....	28	27	4	31	4.0
2. Commercial rates:								
1963 actual	49,355	50,674	.....	1,118	38	12	50	1,333
1964 fiscal plan	50,145	50,646	.....	617	38	12	50	1,333
1965 CAB budget	53,745	53,746	.....	616	37	12	49	1,453
3. Overall program direction:								
1963 actual	.....	.....	.....	.....	1	3	4	.....
1964 fiscal plan	.....	.....	.....	.....	1	3	4	.....
1965 CAB budget	.....	.....	.....	.....	1	3	4	.....
4. Total, rates and fares activity:								
1963 actual	49,452	50,747	.....	1,170	68	19	87	746
1964 fiscal plan	50,236	50,752	.....	654	68	19	87	746
1965 CAB budget	53,844	53,854	.....	644	65	19	84	792

Mr. SHIPLEY. Here the number of work units have increased from 45,000 to 47,500, 1964–65, which makes an increase of 2,500, under the screening and tariff filings.

Tariff rejections shows that there were 900 in 1964 and it has increased 25 in 1965; special tariff permission applications have in-

creased; processing tariff referrals and complaints on the merits has increased; formal cargo and passenger rate proceedings is the same.

Mr. BOYD. Yes, sir.

Mr. SHIPLEY. You have increased in all of your workloads here.

Mr. BOYD. That is because, as I mentioned this morning, the total activities of the industry are increasing and it goes all the way through, not only in passenger miles but in tariff filings, too.

Mr. SHIPLEY. You have a reduction of one position from 1964 to 1965. Do you intend to squeeze this a little harder to get a little more work out of them?

Mr. BOYD. We are going to keep squeezing.

Mr. SHIPLEY. You should be commended for that.

Page 41 covers what we have discussed in the previous pages, guarantee rates, commercial loans, commercial rates, overall program direction, total rates and fares activity.

Are there any questions on this page?

SUBSIDY REDUCTION

Mr. THOMAS. I suggest we set out the two middle paragraphs on page 35 in the record. Let me read these two. This goes back to his workload and his positions of 31 for 1965 in local service. [Reading:]

Reopening of the current class rate for the 13 carriers is projected during fiscal year 1964 along with the finalization of a new class rate during the same fiscal year. This is critical to the goal of subsidy reduction for fiscal year 1965.

Of course, the only way you are going to reduce the subsidy is either for the fares to go up, the fares for which the local service carrier carries the customer, or for the volume to increase. This is the meat in the coconut. I wonder why the personnel in this bureau cannot be reduced. [Reading:]

The original and revised class subsidy rate contains provision for appropriate refund of subsidy by each of the 13 local carriers. Accordingly such determination must be made formally for each carrier for its calendar year during the effectiveness of the class subsidy rate. These cases, which are estimated to result on the average in overall subsidy refund from $500,000 to $1 million annually.

What are your results? What has the class rate done for you? [Reading:]

In addition to subsidy class rate cases, 20 ad hoc adjustment cases per year are projected for fiscal year 1964 and 1965.

What do you mean?

How does it work? Why do you have to have all of these people?

NUMBER OF SUBSIDIZED CARRIERS

Mr. BOYD. I had hoped that this explanation would provide you with an answer, Mr. Chairman. We have 13 carriers in this area. These are not the only subsidized carriers by any means, but these are the ones who account for the bulk of the subsidy.

Mr. THOMAS. What more do you have outside of——

Mr. BOYD. We have eight Alaskan carriers.

Mr. THOMAS. Outside of those in Alaska and Hawaii?

Mr. BOYD. That is all.

Mr. THOMAS. About 80 or 85 percent.

Mr. BOYD. The 13 local service carriers in the United States are just about half of the subsidized local service carriers.

THEORY OF CLASS RATE

Mr. THOMAS. How does your class rate affect it?

Mr. BOYD. The theory of the class rate was that it would provide a greater incentive to management to be efficient than had been the case where we are dealing with an individual company rate where the carrier's profit depended to a great extent on who could outargue who.

DISTINCTION BETWEEN BUREAU OF ECONOMIC REGULATION AND OFFICE OF CARRIER ACCOUNTS AND STATISTICS

Mr. THOMAS. Does not the Bureau of Statistics and Economics come in here as much as the Bureau of Rates?

Mr. BOYD. This is the Bureau of Economics. I am lost here.

Mr. THOMAS. You call it rates and fares, but it is statistics.

Mr. BOYD. The Bureau of Economic Regulation has the responsibility for routes, agreements, rates, and fares.

Mr. THOMAS. It services two or three subheads. We understand that.

Mr. BOYD. That is right. That is all in one bureau.

Mr. THOMAS. How is your class rate working out?

Mr. GURNEY. May I say something?

Mr. BOYD. Yes.

Mr. GURNEY. You will remember 3 or 4 or 5 or 10 years ago we did not know what the subsidy was; we did not know what the bill was in order to tell you how much we had to appropriate. We were always 3 or 4 years back.

Mr. THOMAS. At least 18 months.

Mr. GURNEY. More than that. I know cases of carriers where we went back 6 or 8 years to adjust their subsidy rates. The class rates allow us to give you current information, and we know what the bill is exactly.

FUNCTIONS OF SUBSIDY STAFF

Mr. THOMAS. How is it working out now related to your 31 people? That is where the people are involved. You do not have this to contend with so much. You have another group of 40 or 41 taking care of your trunklines. What are these people doing with reference to class rates?

Mr. BOYD. These people are working out the adjustments that have to be made. They are working on the refunds. They are working on developing a new formula.

We have had two formulas, neither of which was perfect. We have made a proposition to the industry on a third formula which has a different approach completely.

Mr. THOMAS. What are some of the details, first, of your class rates? You have certain types of equipment. We are going to allow you so much. You have so many seats. We are going to allow you so much. Is that what you call your class rates?

Mr. BOYD. Yes.

Mr. THOMAS. Where do your employees come in? That is, year in and year out. What is their day-to-day job?

Mr. BOYD. Their day-to-day job is working on such things as developing figures for calendar 1961. We have so far developed refunds of $571,882 on profit sharing. We have developed $300,000 for 1962 and have additional work to do which we think will bring it up to over——

Mr. THOMAS. You say profit sharing. You are taking so much of that out of the subsidy?

Mr. BOYD. That is right. They are working on such things as how much should be paid to a carrier which has received a new route award and where the new route award specifies three or four points and the carrier already has service going across through one or more of those points on another——

Mr. THOMAS. He tells you he is the operator and the statute gives him the authority to set the amount of fare he is going to charge his customer, and unless it is decidedly out of line, you are not going to overturn it. So why do you need this big staff?

Mr. BOYD. This staff has nothing whatsoever to do with fares. That is in the commercial rates staff, Mr. Chairman. The subsidy staff deals only with subsidy payments, subsidy adjustments between the Government and the carriers.

Mr. THOMAS. There is bound to be a connection with the subsidy you pay being dependent upon two things in the final analysis: what he charges his customers, and the numbers he has to charge. It is on that basis, plus a few interstices there, that you arrive at this subsidy.

Mr. BOYD. That is right, sir.

Mr. THOMAS. The big things in formulating his subsidy are what he takes in and what he pays out. Those are the two big things.

Mr. BOYD. Yes, sir.

Mr. THOMAS. What he takes in depends on the number of people he hauls and what he charges them.

Mr. BOYD. Yes, sir; but that is not the function of these people who work in the Subsidy Payments Division.

Mr. THOMAS. What do they do on a day-to-day basis?

Mr. BOYD. They pay out the subsidy you appropriate.

Mr. THOMAS. It ought not to take 31 of them to pay it out. Is that all they do?

Mr. BOYD. Yes, sir.

Mr. THOMAS. You ought to reduce that by two-thirds.

Mr. BOYD. We have reduced it, Mr. Chairman.

Mr. THOMAS. You are gradually reducing it, but I was wondering if you could not reduce it more.

EXTENSION OF ROUTES

Mr. JONAS. In granting an extension of a route to a subsidized carrier to permit it to serve a community 40 or 50 miles off of a so-called beaten path, do you ever restrict that certification and make it dependent on whether that leg, so to speak, can be economically feasible?

Mr. BOYD. I am not sure I know what your definition of "economically feasible" is. But certainly we take the cost into consideration, and if the cost seems to us to be exorbitant, we do not——

Mr. JONAS. You do not know until you have had some experience how much travel will be generated off of that extra part.

Mr. BOYD. No, sir; but we make a projection. Over the years generally it has proved to be pretty accurate. It is not always accurate, by any means.

Mr. THOMAS. You have a little statistical information on the number of people in the area.

Mr. BOYD. Community of interest is one of the big things.

Mr. JONAS. I know all these communities want airline service. I live in a little town. They want to build an airport now. They all want air service, but frequently they do not support the airline when it comes in.

There should be some well-developed promotional activity on the part of the agencies in the community to generate some business for it. Is any of that activity going on?

Mr. BOYD. Yes, sir. The communities getting air service, by and large, do a very good job of promoting the service once it comes in.

INTERNATIONAL AVIATION AGREEMENTS

Mr. JONAS. There is a very good statement on page 45 which justifies your activity in the international field. I would like to quote it at this point:

> U.S. carriers are serving more than 64 countries, 47 under bilateral agreements. They are also serving others, particularly the many newer nations, without agreement or on the basis of a reciprocal or unilateral arrangement. Czechoslovakia, with which the United States has a bilateral, is not presently served by a U.S. carrier, and U.S. carriers are not serving 19 other countries to which they are certificated to operate.

I think we should put in the record the statement on page 42 and down through the table on page 43, which will show the purposes and objectives of your activity in the international field.

(The pages follow:)

INTERNATIONAL AVIATION AGREEMENTS

The Bureau of International Affairs performs the functions of this activity.

I. PURPOSE AND OBJECTIVES

To obtain through international agreements or through other reciprocal or unilateral arrangements authority necessary for the operation of U.S. air carriers to and through foreign countries; to resolve problems arising out of international air operations of U.S. and foreign air carriers engaged in foreign air transportation, both under and outside of air transport agreements; to formulate technical and policy recommendations regarding the economic aspects of U.S. international air transport relations; and, to recommend U.S. positions for the implementation of the economic programs of the International Civil Aviation Organization (ICAO) and other international civil aviation entities.

To achieve these objectives, the Board consults with and advises the Department of State on international aviation matters; participates as a member of U.S. delegations in the negotiation of international air agreements and their amendment as well as in consultations for the interpretation of such agreements. The Board also initiates notes to foreign governments and instructions to Embassies for use of the Department of State in working out international aviation problems.

In supporting U.S. international air transport policy, the Board makes economic analyses and prepares economic data both in connection with the negotiation of agreements and consultations with other governments for the

interpretation of such agreements, and in the working out of day-to-day problems arising as a result of operations in foreign air transportation of U.S. carriers and foreign carriers authorized to operate to the United States.

For the purpose of determining the immediate and long-range international air-transport objectives of the United States, the Board prepares extensive overall aviation studies on a regional basis. These studies also serve as guidance in determining U.S. positions in specific negotiations.

The Board also participates in the activities of the Inter-Agency Group on International Aviation (IGIA), established pursuant to the President's memorandum of August 11, 1960. In this area the Board has primary resonsibility for the preparation of U.S. positions on economic matters involving the International Civil Aviation Organization (ICAO), North Atlantic Treaty Organization/Civil Aviation Planning Committee (NATO/CAPC), European Civil Aviation Conference (ECAC), Regional (Western Hemisphere) Conference on Civil Aviation (CRAC), and similar international aviation bodies.

During fiscal years 1964 and 1965, objectives in the international area will be (*a*) to consult with and advise the Department of State on matters of interpretation, and on operating problems arising in connection with existing agreements or other arrangements to the end that U.S.-flag carriers receive and maintain foreign operating rights which are economically sound and consistent with reciprocal rights requested by foreign countries; (*b*) to negotiate, as appropriate, bilateral agreements where none has heretofore existed; (*c*) to renegotiate agreements which have either been denounced, or have expired, or when an exchange of rights has not been fully consummated; (*d*) to continue efforts through international bodies to encourage the development of an adequate air transport system properly adapted to the present and future needs of the U.S. foreign commerce, the postal service and the national defense; and sound economic conditions therein; and (*e*) to continue to consult with the U.S. air transport industry in the coordination of such U.S. air transport policy matters. In addition to handling a progressively larger volume of negotiations, consultations, and other matters, the program for 1964 and 1965 provides for improving the Board's effectiveness through the increased use of economic data.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Permanent positions	21.0	21.0	20.0	−1.0
Average number of all employees	20.5	20.2	19.6	−.6
Obligations:				
Personnel compensation and benefits	$232,255	$246,800	$245,600	−$1,200
Other objects	14,807	19,100	25,400	6,300
Total	247,062	265,900	271,000	5,100

The decrease of $1,200 for personnel compensation and benefits is the net result of abolishing one position in 1965 and the cost of within-grade salary advancements and increased pay costs pursuant to Public Law 87–793.

Of the $6,300 increase for other objects, $6,000 is for travel expenses in connection with negotiations and consultations and the remainder is for the increase in GSA switchboard rates and postage.

WORKLOAD AND EMPLOYMENT

Mr. JONAS. The table on page 43 shows you have 20 people working in this activity, a reduction of 1 over last year. The activity costs $271,000, which is up $5,100 from last year.

There is a table showing justification of staff requirement on page 44 at the top of the page which lists the number of agreements that you participated in and the workload which I think would be interesting to have made a part of the record.

(The table referred to follows:)

	1963		1964		1965		Position increase
	Number of work units	Positions	Number of work units	Positions	Number of work units	Positions	
International air agreement consultations and negotiations	918	15	940	15.1	985	14.5	−0.6
International aviation policy review and development, advisory assistance and IGIA/ICAO and other civil aviation activity	552	6	561	5.9	583	5.5	−.4
Total	1,470	21	1,501	21.0	1,568	20.0	−1.0

INTERNATIONAL CONSULTATIONS AND NEGOTIATIONS

Mr. JONAS. The table on page 45 under "International air agreement consultations and negotiations" would be helpful to have in the record also.

(The table follows:)

INTERNATIONAL AIR AGREEMENT CONSULTATIONS AND NEGOTIATIONS

The workload and staff requirements for this function follow:

	1963		1964		1965		Position increase
	Number of work units	Positions	Number of work units	Positions	Number of work units	Positions	
Multilateral conferences	10	1.3	8	0.9	8	0.9	0
Bilateral agreement activities	684	11.7	703	12.6	736	12.0	−.6
Nonbilateral consultations and problems	224	2.0	229	1.6	241	1.6	0
Total	918	15.0	940	15.1	985	14.5	−.6

Mr. JONAS. I do not think we need any more on that subject.

ECONOMIC ENFORCEMENT

Mr. THOMAS. Let us look at Bureau of Enforcement. We shall put pages 49 and 50 in the record.

(The pages follow:)

ECONOMIC ENFORCEMENT

The Bureau of Enforcement performs the functions of this activity.

I. PURPOSE OF WORK

The main objectives of the Board's economic enforcement program are to obtain compliance with the economic provisions of the Federal Aviation Act and with all of the regulations, orders, certificates, permits, exemptions, and other requirements issued thereunder; preventing unfair, deceptive, and restrictive competition and practices; protecting the public from unjust discrimination and mistreatment by air carriers and their agents; and improving the quality and dependability of air transportation service, thereby promoting the sound growth and development of air transportation.

The work performed involves the handling of passenger and shipper complaints; the investigation of alleged or suspected violations; and the taking of enforcement action for the imposition of sanctions and achievement of compliance by informal enforcement action, formal administrative proceedings and prosecution in the courts.

In 1964 and 1965, it will be necessary to handle an increasing volume of work generated from outside sources and other entities subject to Board jurisdiction. In addition, there are specific problems which will require extraordinary effort, including such cases as the *North Atlantic Rate-Cutting Investigation*, the complaint of *Hughes Tool Co.* v. *Metropolitan Life Insurance Co., et al.*, and the *Panagra-Pan American-Grace Investigation.*

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Permanent positions	34	34	34	
Average number of all employees	32.5	32.6	33.2	0.6
Obligations:				
Personnel compensation and benefits	$316,036	$340,300	$358,400	$18,100
Other objects	47,623	45,300	47,600	2,300
Total	363,659	385,600	406,000	20,400

The increase of $18,100 for personnel compensation and benefits is to cover the cost of within-grade salary advancements, a reduction in position turnover lapse, and increased pay costs pursuant to Public Law 87–793.

Of the increase of $2,300 for other objects, $2,000 is for travel expenses in connection with the increased investigation workload, and $300 is to cover small cost increases such as the increase in GSA telephone switchboard rates.

III. JUSTIFICATION OF STAFF REQUIREMENTS

Enforcement activity, in the past few years, has moved into new, complex, and diverse areas. In 1964 and 1965, this trend is expected to continue. It is difficult to establish a set enforcement program with any degree of precision, since the identity of the violators and the nature of the violations cannot specificaly be predicted and today's high priority item may be superseded by an unexpected emergency tomorrow. Nonetheless, there are certain predictable trends in the enforcement field, there are certain areas in which future problems can be pinponted, and there are certain specific cases which are either now pending or will definitely be filed. Staffing requirements are predicated on these trends, areas of predictable problems, and positive caseloads.

Mr. THOMAS. You have 34 jobs, the same as last year and the year before last. The Bureau costs about $406,000 this year against $385,600 last year, an increase of about $20,000 (reading):

The main objectives of the Board's economic enforcement programs are to obtain compliance with the economic provisions of the Federal Aviation Act and with all of the regulations, orders, certificates, permits, exemptions, and other requirements issued thereunder.

The work performed involves the handling of passenger and shipper complaints; the investigation of alleged or suspected violations; and the taking of enforcement action for the imposition of sanctions and achievement of compliance by informal enforcement action, formal administrative proceedings, and prosecution in the courts.

FUNCTION OF ECONOMIC ENFORCEMENT

What does this Division do outside of these high sounding words? What actually does it do?

Mr. BOYD. If you forgive me for mentioning it, Mr. Chairman, we go back to the Latin American case again. One of the major things the Bureau is involved in today is the antitrust investigation of Panagra, Pan American, and W. R. Grace & Co.

Mr. THOMAS. You have not had that case all the time and you have had 34 employees from time immemorial, going back far beyond 1963, 5 or 6 years beyond that. You have the North Atlantic rate-cutting investigation, complaints of *Hughes Tool Co.* v. *Metropolitan Life Insurance Co.*, and the Panagra-Pan American-Grace investigation. Those directors are going at it with hammer and tongs. Business is getting awfully good now with TWA, so that suit ought to be dropped right quick, should it not? When matters were a little tight about 18 months ago, the brothers were inclined to argue; but business is good, and the suit ought to evaporate pretty soon, should it not?

Mr. BOYD. I have no idea about that, Mr. Chairman.

Mr. THOMAS. Good business sort of removes most of these headaches, and they enjoy good business now. Are they not paying a big dividend now?

Mr. BOYD. No, sir.

Mr. THOMAS. Did we not see in the Wall Street Journal about 2 weeks ago that business is good?

Mr. BOYD. They made a lot of money this year.

I can give you six examples of what the Bureau of Enforcement did last year under the civil penalties program: $12,500 against Pakistan International Airways for unlawful rate cutting; $500 against the chairman of the board of North Central Airlines for engaging in prohibited stock purchases; $2,500 against South Pacific Airlines for engaging in unauthorized air transportation; $2,500 against Tolaxa, which is a Costa Rican airline, for violations of the law on cargo charter flights.

Mr. THOMAS. That is section what?

Mr. BOYD. 901(b).

Mr. THOMAS. You are bound to have plenty of activity under your nonscheds.

Mr. BOYD. That is right, sir. We are continually working on cease-and-desist orders for violations, not only with the nonscheds but with scheduled carriers.

Mr. THOMAS. Do these cases go before your hearing examiners?

Mr. BOYD. Those are compromise penalties, the ones I outlined to you. They have the right to go before an examiner.

Mr. THOMAS. How many of these activities go before an examiner and how many are handled administratively?

Mr. BOYD. Most of them are handled administratively.

Mr. THOMAS. Do these matters come to the attention of the Board or are they handled in the Bureau?

Mr. BOYD. On an informal basis the Bureau has been delegated the authority to resolve these cases. The Bureau has so far, as a matter of practice, brought them to the Board's attention.

ENFORCEMENT INVESTIGATIONS

Mr. THOMAS. The best idea we can get as far as something concrete is this table and narrative on page 54, which we will put into the record.

(The material referred to follows:)

INVESTIGATIONS

This function involves the conduct of investigations of alleged or suspected violations including operations without or in excess of authority, tariff violations, unlawful interlocking and control situations, failure to comply with accounting requirements, illegal or discriminatory treatment of passengers, unfair and deceptive practices and unfair methods of competition in all fields of the air transport industry, including cancellation of flights, overbooking and oversales, misrepresentation and misleading advertising and violations of charter regulations. The workload and staff requirements for this function are summarized below:

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Number of investigations:				
Received during the year	235	280	320	40
Completed during the year	227	280	320	40
On hand at end of year	68	68	68	
Position requirements	12.4	12.4	12 4	

Mr. THOMAS. Number of investigations were 280 in 1964 and 320 this year, an increase of 40. Completed during the year 280; 320 this year. What does that mean, cases? You say this function involves the conduct of investigations of alleged or suspected violations, including operations without or in excess of authority, tariff violations, unlawful interlocking and control situations, et cetera. These are all handled administratively?

Mr. BOYD. The bulk of them are handled administratively; yes, sir. The North Atlantic rate-cutting investigation is before an examiner. We have been having quite a time with that. We just got a man cited for contempt in the Federal court.

Mr. THOMAS. What is the nature of that case?

UNDER-THE-COUNTER TICKET DISSCOUNTS—FOREIGN CARRIERS

Mr. BOYD. There has been a lot of under-the-counter discounting of tickets on the North Atlantic which militates against the general public. We have been trying to bring——

Mr. THOMAS. You mean foreign carriers or our own?

Mr. BOYD. Foreign carriers. So far as we can find out, our own carriers are completely legal and legitimate.

Mr. THOMAS. You mean rebates of some type?

Mr. BOYD. Discounts primarily. Rebates are involved in some cases.

Mr. THOMAS. That means in fares or charges in the United States?

Mr. BOYD. To the passengers.

Mr. THOMAS. I mean passengers coming to the United States.

Mr. BOYD. No; it is going across from the United States to Europe. There are several ways, we understand, that this is done. One is that you just pay less for a ticket. Another is that you pay the full price for the ticket, then you arrive on the other side, and you are handed——

Mr. THOMAS. The way we get jurisdiction is they set down on our soil at some time?

Mr. BOYD. Yes, sir.

Mr. THOMAS. Is this Bureau here kept busy all the time?
Mr. BOYD. Yes, indeed, they are.
Mr. THOMAS. Go ahead, Mr. Jonas, with hearing activities.

HEARING EXAMINERS

Mr. JONAS. Let us look at hearing activities. The purposes of your hearing activities are set forth pretty well on page 57. We will put in the record that paragraph outlining the purpose and objectives and we will include the financial requirements tabie on that page.
(The page follows:)

HEARING EXAMINERS

The functions of this activity are performed by the Bureau of Hearing Examiners.

I. PURPOSE AND OBJECTIVES

To conduct formal proceedings pursuant to appropriate sections of the Federal Aviation Act of 1958, as amended, particularly sections 401, 402, 403, 404, 406, 408, 409, 412, and 1002, on economic regulatory matters instituted by applications, petitions, or Board investigations; to conduct formal proceedings pursuant to sections 602 and 609 of the act on appeals from action of the Administrator of the Federal Aviation Agency; and to prepare and issue the examiners' initial or recommended decisions thereon.

The work consists of processing (from prehearing conference through hearing and initial or recommended decision) applications, petitions, investigations, or appeals involving route licensing, foreign permits, commercal and mail rates, mergers, control, adequacy of service, and economic and safety enforcement. Since these cases constitute the basis for a major part of the Board's regulatory function, they are vital to its successful operation.

The work objective is to maintain on a current basis formal proceedings involving priority matters, such as route problems having a high precedence, commercial and mail rates, mergers, route transfers, foreign permits, and economic and safety enforcement cases.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Permanent positions	45.0	45.0	45.0	
Average number of all employees	45.3	43.3	43.9	0.6
Obligations:				
Personnel compensation and benefits	$516,727	$536,200	$558,200	$22,000
Other objects	39,611	37,500	40,000	2,500
Total	556,338	573,700	598,200	24,500

The increase of $22,000 for personnel compensation and benefits is to cover the cost of within-grade salary advancements, increased pay costs pursuant to Public Law 87-793, and a reduction in position turnover lapse to the extent of 0.6 man-years.

Of the increase for other objects, $2,000 is for travel expenses in connection with economic hearings, depositions, and safety enforcement cases held in the field, and the remainder is to cover small cost increases such as the increase in GSA telephone switchboard rates.

Mr. JONAS. You have 45 people permanently employed in this activity. Are they all hearing examiners?
Mr. BOYD. No, sir; 22 hearing examiners and 23 secretaries.
Mr. JONAS. That is the same number you have had all along?
Mr. BOYD. Yes, sir.

Mr. JONAS. There is a slight increase in cost, $573,000 to $598,200, an increase of $24,500; $22,000 of that is attributable to increased personnel compensation and $2,500 other objects.

This table on page 58 shows the number of hearings held during the year, number of dockets examined, examiners' decisions issued, safety enforcement proceedings, hearings held, number of examiner decisions issued, then the total, a total of 147 hearings last year and the examiners issued 147 decisions. The docket is current, I take it from this.

Mr. BOYD. In that sense, yes, sir.

Mr. JONAS. Twenty-two hearing examiners including 1 chief and 21 associates, and 23 clerical.

Your table on page 59 shows the type of proceedings heard by the examiners; is that correct?

Mr. BOYD. Yes, sir.

Mr. JONAS. The table I just referred to, the information in its is slightly contradictory to this, is it not?

Mr. BOYD. No, sir; this is taken as off a particular date to give you a comparison as of June 30, 1962, and as of June 30, 1963.

Mr. JONAS. Where are these hearings conducted?

Mr. BOYD. All over.

Mr. JONAS. In the field?

Mr. BOYD. Yes, sir.

Mr. JONAS. You send the examiners out for hearing instead of bringing the parties to Washington?

Mr. BOYD. Yes, sir.

Mr. JONAS. Are all the examiners stationed in Washington?

Mr. BOYD. Yes, sir.

Mr. JONAS. When a case is assigned to an examiner, he takes his clerical force with him and goes to the place of the hearing?

Mr. BOYD. No, sir, the examiner goes by himself. The Bureau of Economic Regulation or Bureau of Enforcement, depending on who is involved, will provide public counsel and witnesses from the Board's staff here in Washington. But the examiner goes by himself. He does all of his clerical work, so far as I know, here in Washington.

Mr. JONAS. After he returns?

Mr. BOYD. Yes, sir.

Mr. JONAS. How long do these hearings usually take?

Mr. BOYD. It is impossible to say. We can give you an average.

Mr. JONAS. It would not mean much.

Mr. BOYD. It would not be meaningful.

Mr. JONAS. They all involve a variety of factual situations and the importance of the case would determine the length of the hearing.

Mr. BOYD. That is right, sir.

Mr. JONAS. What do these hearings mostly involve, applications for extension?

Mr. BOYD. Mostly applications for route authority.

Mr. JONAS. No further questions on this.

ACCOUNTING REGULATIONS AND AUDITS

Mr. EVINS. The next subject is "Accounting regulations and audits." We shall place in the record pages 61 and 62.

(The pages follow:)

ACCOUNTING REGULATIONS AND AUDITS

The Office of Carrier Accounts and Statistics performs the functions of this activity.

I. PURPOSE AND OBJECTIVES

To provide, in accordance with section 407 of the Federal Aviation Act of 1958, a validated body of facts required in the regulatory processes of the Board through the design, prescription, and administration of uniform systems of accounts and reports; field audit of carrier accounts and records and office audit of carrier reports filed with the Board; and the operation of a centralized automatic data processing system to service the needs of the entire Board.

During 1965 there will be continued emphasis on increased efficiency and productivity with effort concentrated on keeping current in the most significant workload areas. Since no program expansion is planned and the development of an air cargo origin and destination traffic survey and the auditing of air freight forwarders will be deferred. Some additional workload will be inescapable particularly in view of the imminent studies and evaluations required in the development of a supersonic air transport. The carrier form 41 reports and uniform system of accounts will be revised in order to utilize the electronic data processing procedures to the fullest extent possible.

In order to achieve all possible economies, every effort will be made to extend automatic data processing procedures to suitable areas throughout the Board. The backlog of work resulting from conversion to electronic data processing procedures had been largely eliminated by midyear of fiscal 1964. Machine capacity will, therefore, be available for extension to other areas of work.

Extensive liaison programs with the Federal Maritime Commission, Interstate Commerce Commission, Federal Aviation Administration, and the Military Air Transport Service have been developed during the past year, and these programs will be continued with available staff. The liaison with FAA and MATS in regard to supplemental air carriers has been particularly useful but has also necessitated the expenditure of a substantial amount of staff effort.

Financial requirements

	Actual 1963	Estimate 1964	Estimate 1965	Increase
Permanent positions	117	117	113	−4
Average number of all employees	108.5	111.3	109.8	−1.5
Obligations:				
Personnel compensation and benefits	$1,011,642	$1,138,500	$1,187,200	$48,700
Other objects	312,425	333,900	355,000	21,100
Total	1,324,067	1,472,400	1,542,200	69,800

The increase of $48,700 for personnel compensation and benefits is the net result of eliminating four positions offset by the cost of within-grade salary advances and increased pay costs pursuant to Public Law 87–793.

Of the increase for other objects, $4,000 is for travel expenses in connection with the field audit of air carrier accounts and records, $13,000 is for rental of an additional 8K unit memory to increase the memory capacity of the present computer to 16K, and $4,300 is for electronic data processing supplies, especially magnetic tapes.

III. JUSTIFICATION OF STAFF REQUIREMENTS

A total of 117 positions was utilized during fiscal year 1963 to perform the various activities comprising the work of the "Accounting regulations and audits" activity and, although the volume of work is expected to increase during 1964 and 1965, 117 positions are planned for 1964 and 113, a reducting of 4, are projected for 1965. This decrease of four positions is reflected in the field audit activity. Only the most urgent and compelling programs are planned for 1965.

The level of work and distribution of staff (positions) are summarized by function in the following table and explained in subsequent paragraphs:

	Actual 1963		Estimate 1964		Estimate 1965		Position increase
	Number of work units	Positions	Number of work units	Positions	Number of work units	Positions	
Electronic data processing		20.0		20.0		20.0	
Processing and conformance of air carrier reports	1,151	11.2	1,377	11.2	1,841	11.2	
Financial analysis and cost finding	146	5.2	167	5.2	167	5.2	
Regulation of carrier accounting and reporting systems	894	9.6	911	9.6	920	9.6	
Field audit of air carriers	85	68.5	88	68.5	85	64.5	−4
Overall direction		2.5		2.5		2.5	
Total		117.0		117.0		113.0	−4

Mr. Evins. Mr. Chairman, I note that they had 117 employees in this division to be reduced to 113, a reduction of 4.

Mr. Boyd. Yes, sir.

Mr. Thomas. Who has this now?

Mr. Boyd. Mr. Hord.

ADDITIONAL COMPUTER MEMORY UNIT

Mr. Evins. "Other objects" are up by $21,000. You point out that $4,000 is for travel expenses in connection with appealed audits of air carrier accounts, and $13,000 is for rental of additional 8K unit memory.

Mr. Boyd. Yes, sir.

Mr. Evins. Tell me what a memory unit does, what this one does in relation to the other memory unit.

Mr. Boyd. It provides additional capacity.

Mr. Hord. It has what we call an 8K memory unit. We are adding another 8K unit, which will make 16K. That doubles the capacity of the memory unit.

Mr. Evins. I am always interested in technology. What exactly does it do?

Mr. Hord. One way to think of it is if you are adding up 40 columns of figures and you want to consolidate them in one answer. The memory unit would keep each answer in its mind until the last one was added and then it would put them all together in one figure. So the memory in the machine is almost exactly as it is in a person's mind.

Mr. Evins. You need another unit?

Mr. Hord. It increases the capacity and the speed.

ORGANIZATION OF THE OFFICE OF CARRIER ACCOUNTS AND STATISTICS

Mr. Thomas. How many units does the Board have? It has economics, statistics, enforcement. What do the three units add up to?

Mr. Boyd. No, sir. Mr. Adams has enforcement, Mr. Hord has statistics, and Mr. Roth has economics.

Mr. Thomas. What is the total under Mr. Hord?

Mr. Evins. 113.

Mr. THOMAS. There are two different divisions here. There are 113 in this one alone.

Mr. BOYD. I would urge that we look at page 20.

Mr. THOMAS. That is the big table.

Mr. BOYD. This gives a pretty good breakdown here.

Mr. THOMAS. It does not follow your narrative, that is the point. Go ahead.

Mr. BOYD. This shows that we have a total——

Mr. THOMAS. You call it Office of Carrier Accounts and Statistics.

Mr. BOYD. Yes, sir, that is what we have been calling it for about 12 years.

Mr. THOMAS. Your justification and narrative do not follow it, which is why I asked the question. What is the total employment in the Bureau?

Mr. BOYD. 113, plus 46, 159.

Mr. THOMAS. I guess Mr. Roth has him by the skin of his teeth. Go ahead. Excuse me.

Mr. EVINS. What are the other 46 employees doing?

Mr. BOYD. They are covered over in the other statistical and research activities, which is the next major heading, Mr. Evins.

Mr. EVINS. Can you not consolidate those into one bureau?

Mr. BOYD. They are.

Mr. THOMAS. These narratives do not follow the chart.

Mr. BOYD. I do not know why we have this breakdown.

Mr. THOMAS. We are not complaining.

Mr. EVINS. One tab shows accounting regulations and audits, and the other shows statistics and research.

Mr. BOYD. Yes, sir, that is exactly what we have on the chart on page 20.

Mr. EVINS. With that memory unit next year, perhaps you should consolidate them into one, Mr. Chairman.

Mr. BOYD. The reason we do this is we give a breakdown because we operate this way and because we thought you would like to know the way we operate. But we do not feel we have all the answers on organization.

STATISTICAL AND RESEARCH ACTIVITIES

Mr. EVINS. Next division is statistical and research activities. We shall place in the record pages 76 and 77.

(The pages follow:)

STATISTICAL AND RESEARCH ACTIVITIES

The Office of Carrier Accounts and Statistics performs the functions of this activity.

I. PURPOSE AND OBJECTIVES

To provide basic statistics, conduct statistical surveys, perform economic studies, prepare forecasts, and make evaluations of air transport and other economic trends needed by the Board in planning and performing its regulatory and developmental functions; to provide technical and analytical assistance to the Board and its staff in decisional phases of rate, route, merger, regional airport, and adequacy-of-service proceedings in which the Administrative Procedure Act prohibits assistance by parties to the proceedings; to provide expert

statistical and economic advice and assistance on complex regulatory problems; and to provide cartographic and drafting services.

General objectives for 1964 and 1965 are (1) to fulfill requests of the Board and its staff for assistance in statistical and economic analyses required in formal proceedings, especially assistance in connection with hearing examiners' initial decisions and Board opinions, and in other Board programs; (2) to make wider and more effective use of electronic data processing to broaden the content and speed up availability of the basic statistics needed in the Board's work; (3) to convert the Board's three passenger origin-destination surveys to an integrated program on a common basis and provide additional data needed by Board and industry users; and (4) to complete studies of air transport demand for long-range forecasts of passenger traffic, develop new series of seasonally adjusted traffic and capacity data, and undertake analyses of the potential impact of supersonic aircraft on airline profits and financial condition.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Permanent positions	47	47	46	−1
Average number of all employees	43.4	44.7	45.2	.5
Obligations:				
Personnel compensation and benefits	$378,566	$437,500	$454,400	$16,900
Other objects	21,029	23,400	24,300	900
Total	399,595	460,900	478,700	17,800

The increase of $16,900 for personnel compensation and benefits is the net result of eliminating one position in 1965, the cost of within-grade salary advancement, a reduction in position turnover lapse and increased pay costs pursuant to Public Law 87–793.

The increase of $900 for other objects is to cover small cost increases such as increased GSA telephone switchboard rates.

III. JUSTIFICATION OF STAFF REQUIREMENTS

A total of 47 positions were available during fiscal year 1963 to perform the work of the statistical and research activity; 47 positions are estimated for 1964 and 46 positions, a decrease of 1, are requested for the fiscal year 1965. The level of work and the distribution of staff (positions) are summarized by function in the following table and are explained in subsequent paragraphs covering each such function.

	1963		1964		1965	
	Number of work units	Positions	Number of work units	Positions	Number of work units	Positions
Analytical economic and statistical assistance	173	10.9	175	8.7	180	8.7
Economic studies and forecasting	40	9.8	34	9.8	45	9.8
Periodic and special-purpose statistical reports	97	14.1	133	14.1	105	13.1
Origin-destination surveys	11	5.7	21	7.9	23	7.9
Cartographic services	----------	5.0	----------	5.0	----------	5.0
Overall program direction	----------	1.5	----------	1.5	----------	1.5
Total	321	47.0	363	47.0	353	46.0

ECONOMIC FORECASTS

Mr. Evins. The purpose of this activity is to conduct statistical surveys and to perform economic studies, prepare forecasts, and make

evaluations of air transport and other economic trends. What kind of forecasts?

Mr. BOYD. They attempt to make economic forecasts based on the information which is made available through reports filed by the carriers with the Board. One of the things that was done recently was to prepare, for Messrs. Osborne and Black in connection with their supersonic study for the President, a calculation of the resources that would be available to the air carriers of the United States in the period 1968–71 to buy supersonic aircraft.

Mr. EVINS. In the other division you reduced your staff about 3, and in this one you propose to reduce from 47 to 46, a reduction of 1, but a $900 increase for "Other objects" to cover increased telephone and switchboard rates. Has GSA gone up on your rates to you?

Mr. BOYD. Yes, sir.

Mr. EVINS. They told us there were going to be savings by establishing this system.

Mr. THOMAS. We have heard this same thing from other agencies. You are not by yourself.

Mr. EVINS. Does this chart on page 77 cover the same employees as the chart on page 76?

Mr. BOYD. Yes, sir.

Mr. EVINS. It is another breakdown?

Mr. BOYD. Breakdown by function.

STATISTICAL AND RESEARCH FUNCTIONS

Mr. EVINS. Your statistics give assistance in formal cases, assistance to Board activities, assistance to industry, and assistance to the public and to the Government.

Mr. BOYD. Yes, sir. We have gotten together with FAA, for example, and put out the airport activities statistics of certificated route air carriers, which has saved money for the Government by eliminating what was essentially a duplication in the past. We provide assistance to the Securities Exchange Commission in analyzing filings made by air carriers before the SEC.

The major cases that come before us are getting more and more complicated and, as you will note from items 2, 4, and 5 at the bottom of page 78, we are calling on this group more and more to try to tell us what is going to happen, given one vote or another vote by the Board on a case.

Mr. THOMAS. The purpose and objective is to provide basic statistics and conduct statistical surveys. You have 46 people; this is a reduction of 1. Do you need all these people?

Mr. BOYD. Yes, sir.

OBJECTIVES FOR 1964 AND 1965

Mr. THOMAS. General objectives for 1964 and 1965 are (1) to fulfill requests of the Board and its staff for assistance in statistical and economic analyses required in formal proceedings, especially assistance in connection with hearing examiners' initial decisions and Board opinions, and in other Board programs.

Did you ever see a general who did not want more statistics and more material, just like a staff officer wanting more information?

Mr. BOYD. It puts quite a burden on the examiners to try to reach conclusions in major cases having to scratch it up on their own. The examiners are not qualified.

Mr. THOMAS. I disagree with you. We are not quarreling with our hearing examiners, but you say, "to fulfill requests of the Board and its staff for assistance." You mean the examiners require it. The witnesses are from your staff.

You say, "to make wider and more effective use of electronic data processing." We do not object to that. You say, "to convert the Board's three passenger origin-destination surveys to an integrated program on a common basis." We have heard of that time and time again. When are we going to get through with that?

Mr. BOYD. We will never get through with that.

Mr. THOMAS. You mean we have to do it every 2 weeks to see if they carried more passengers this week than last week?

Mr. BOYD. We try to put it on a continuous basis because this is the source of information from which most of our route activities come.

Mr. THOMAS. I thought you relied upon the local Chamber of Commerce. They supplied you most of that information; is that right?

Mr. BOYD. Yes, sir; it is just like getting legal advice. It is worth what you pay for it.

Mr. THOMAS (reading):

A total of 47 positions were available during fiscal year 1963 to perform the work of the statistical and research activity; 47 positions are estimated for 1964; and 46 positions, a decrease of 1, are requested for the fiscal year 1965.

When you talk about statistics, we have seen more than our share in here. You can prove anything on earth by them. Nobody ever got enough of them. Look at this table here in the middle of 77. Analytical, economic, and statistical assistance; economic studies and forecasting; periodical and special purpose statistical reports. You have work units and positions here. Origin-destination surveys. We will never get through with that; is that right?

Mr. BOYD. That is correct.

Mr. THOMAS. Cartographic services. What does that mean?

Mr. BOYD. That is mapmaking.

Mr. THOMAS. Overall program. The surface of the earth is not changing very often, towns are not changing. We ought to get through with this.

Mr. BOYD. This is the kind of thing we are talking about.

Mr. THOMAS. Overall program direction. You translate your facts and figures there?

Mr. BOYD. Yes, sir.

Mr. THOMAS. That is what we call a slight amount of featherbedding. If we did not have that first unit, we would not have this?

Mr. BOYD. No, sir. I have to disagree, Mr. Chairman. The trouble is that the Board members are just not smart enough to understand the figures, but when they put them in bar charts, sometimes we can understand what it is all about.

INCREASED STATISTICAL INFORMATION

Mr. THOMAS. I can understand that. I am just like you are.

Seriously, can we not finally get our desires for more statistical information satisfied?

Mr. BOYD. I do not think so.

Mr. THOMAS. Does the Department of Commerce have any of this information for you?

Mr. BOYD. No, sir; they get information from us.

SAFETY ACTIVITIES

Mr. THOMAS. Let us look at safety activities. Insert pages 88 and 89 in the record.

(The pages follow:)

SAFETY ACTIVITIES

The Bureau of Safety performs the functions of this acitvity.

I. PURPOSE AND OBJECTIVES

Title VII of the Federal Aviation Act of 1958 makes the Board responsible for investigating aircraft accidents and incidents involving civil aircraft of U.S. registry and accidents involving civil aircraft of foreign registry that occur in the United States or its possessions. It is the duty of the Board to (*a*) make rules and regulations governing notification and report of accidents involving civil aircraft; (*b*) investigate such accidents and report the facts, conditions, and circumstances relating to each accident and the probable cause thereof; (*c*) make such recommendations to the Administrator as, in its opinion, will tend to prevent similar accidents in the future; (*d*) make such reports public in such form and manner as may be deemed by it to be in the public interest; and (*e*) ascertain what will best tend to reduce or eliminate the possibility of or recurrence of accidents by conducting special studies and investigations on matters pertaining to safety in air navigation and the prevention of accidents.

The Board's air safety program for 1965 is based on a continuation of effort to achieve the goals etsablished for 1964 with respect to improved coverage, quality and efficiency in the conduct of aircraft accident/incident investigations, and improvements in managerial and administrative procedures.

For fiscal year 1965 approximately 8.4 percent of the Bureau's manpower resources will be scheduled for training; this is the equivalent of 16.9 positions and represents a slight increase over 1964 of 3.2 percent of total manpower or the equivalent of 7 positions. Keeping technical personnel abreast of technological changes is one of the most critical problems of the Bureau. In past years an insufficient amount of training was accomplished due to the amount and pressure of more immediate work.

Public Notice 13, effective January 1, 1959, issued by the Board requesting the Federal Aviation Agency to investigate nonfatal general aviation accidents involving fixed-wing aircraft of 12,500 pounds or less gross weight, will be continued in effect during 1965.

The resources planned for fiscal year 1965 will enable the Board to achieve the goal of improved coverage in the primary function of accident investigation. The accident prevention and safety promotion program in 1965 will be continued at approximately the same level as 1964.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Permanent positions	186	189	201	12
Average number of all employees	177.5	180.8	193.4	12.6
Obligations:				
Personnel compensation and benefits	$1,801,630	$2,017,000	$2,296,200	$279,200
Other objects	517,068	653,300	736,700	83,400
Total	2,318,698	2,670,300	3,032,900	362,600

The increase of $279,200 for personnel compensation and benefits is to cover the cost of 12 new positions, within-grade salary advancements, the difference between the first year's cost of new positions in 1964 and the full year's cost in

1965, increased pay costs pursuant to Public Law 87–793, and $10,000 for hire of guards, witnesses, and for the performance of autopsies in connection with aircraft accidents.

The increase for other objects of $83,400 breaks down as follows: $11,000 for travel expenses, $30,000 for accident investigation expenses, $10,000 for rental of warehouse space and hearing rooms, $25,000 for training; and the remainder is to provide equipment for safety investigators.

Mr. THOMAS. We had a very nice discussion on that this morning. One of the lawyers was making a finding of probable cause and here comes the agency along and says, yes, after all, we are the ones who are going to have to prevent this from happening again, regardless of who finds the probable cause. We have to look at it, too. Any way you look at it, it is a duplication, but the amount of accurate and detailed work done is simply astounding. How a group of men can go out there amid all the grief and sorrow and carnage and wreckage and look around and come up within a week or 10 days or 2 weeks and say—I imagine with 90 to 95 percent accuracy—what caused it, it almost taxes one's credulity.

Mr. BOYD. We are really proud of these people.

Mr. THOMAS. Whatever it costs, it is worth the money.

Did I talk too soon? You have 195 people here. Is this man-years or jobs?

Mr. BOYD. We have 189.

Mr. THOMAS. You have an increase of 12 at a cost of $3,032,900, which is a $362,000 increase over last year. As shown on the above table, a total of 186 positions were utilized in 1963 to carry out safety activities. In 1964 a total of 189 positions is planned and 201 are requested for fiscal year 1965.

Mr. BOYD. Yes, sir.

SAFETY WORKLOAD AND EMPLOYMENT

Mr. THOMAS. You show a very nice breakdown on page 90, which we will put in the record.

(The page follows:)

	1963		1964		1965		Position increase
	Number of work units	Positions	Number of work units	Positions	Number of work units	Positions	
Accident investigation	960	86.3	1,013	89.3	1,050	89.3	0
Analytical accident research	341	9.9	473	9.9	520	9.9	0
Accident prevention, safety promotion	992	13.5	1,000	13.5	1,400	17.5	4
Public hearings, depositions, and formal board reports	32	19.4	40	19.4	40	19.4	0
Accident analysis, machine processing of reports—statistical reports, etc	12,725	15.5	13,000	15.5	13,250	16.5	1
Ancillary duties, training program direction	----	41.4	----	41.4	----	48.4	7
Total	----	186.0	----	189.0	----	201.0	12

FAA STAFF ENGAGED IN ACCIDENT INVESTIGATION

Mr. THOMAS. You are investigating accidents and you have to have some hearings, and so forth. How many people does the Federal Aviation Agency have doing the same or similar work?

Mr. BOYD. We will try to get that figure and provide it to you.

Mr. THOMAS. Give us the approximate figure for the record at this point.

(The information supplied follows:)

	1961	1962	1963
Number of general aviation accidents	4,839	5,052	5,050
Man-hours expended	49,084	52,329	52,268
Man-years expended	27.3	29.1	29.0
Personnel available for participation	440	455	459

Source: Federal Aviation Agency.

POSITIONS AND FUNCTIONS

Mr. THOMAS. These people are called out at all hours of the night. They may not work for 3 or 4 days, but then they may go on the job for 8 or 10 days. I think they do a tremendous job.

A breakdown of personnel requirements for each of the above separate functions is shown here. You call some ancillary duties, accident and safety inquiries, training, program direction. You have 48. These are more or less just what you call them here; are they not? You call them ancillary duties and then you have accident and safety inquiries, training, but these are the duties incident to the investigators.

How many investigators do you have actually out of your 201? You have about 50 here doing ancillary work. Is that about right? How many people do you have doing your analytical work? That is not some more statistical work; is it?

Mr. BOYD. No, sir; this is such things as metallurgical tests and wind tunnel tests.

Mr. THOMAS. In this presentation this heading pertains to studies and general research undertaken by Bureau headquarters specialists subsequent to completion of the on-scene investigation. It covers laboratory tests, flight and wind tunnel tests, metallurgical tests, and others. Are these technical people?

Mr. BOYD. Yes, absolutely.

Mr. THOMAS. Let us see the green sheets on these 200. These are some of your best trained engineers. Turn to your big table and maybe I can get what I want.

Mr. BOYD. Page 20

Mr. THOMAS. You have one 18; two 17's; three 16's; eleven 15's; sixteen 15's; twenty-three 13's. How many is that 13 and above? Fifty-six 13's and above; is that correct?

Mr. BOYD. Yes. sir.

Mr. THOMAS. In the field column you have about 80 people, 13's and above.

Mr. BOYD. Yes. sir.

LOCATION OF FIELD OFFICES

Mr. THOMAS. Where are the people located, in the field?

Mr. BOYD. Anchorage, Alaska; Seattle, Wash.; Oakland and Los Angeles, Calif.; Denver, Colo.; Kansas City; Fort Worth; Miami; Oak Park, Ill.; and New York.

Mr. THOMAS. I asked the clerks to give me a list of your field offices. We could not find it in here. My memory is that you had 8 or 10 little offices.

Mr. BOYD. Yes, sir.

Mr. THOMAS. They are not in your justifications. Where are they and how may people do you have in them?

Mr. BOYD. We will provide them.

(The information supplied follows:)

Civil Aeronautics Board: Field offices, Bureau of Safety

Location:	Number positions
Oak Park, Ill.	10
Anchorage, Alaska	4
Oakland, Calif.	5
Los Angeles, Calif.	11
Denver, Colo.	5
Kansas City, Mo.	5
New York, N.Y.	12
Fort Worth, Tex.	8
Seattle, Wash.	5
Miami, Fla.	11
Total, 10 field offices	76

Mr. THOMAS. Repeat those you just gave.

Mr. BOYD. Anchorage, Seattle, Oakland, Los Angeles, Denver, Kansas City, Fort Worth, New York, Miami, and Oak Park, a total of 10.

Mr. THOMAS. How many people; three, or four, or a half dozen?

Mr. BOYD. Two or three.

Mr. THOMAS. What do they do?

Mr. BOYD. New York is a bigger office. We have 12 people in New York.

Mr. THOMAS. What division do they belong to? Are they all in the Bureau of Safety?

Mr. BOYD. All in the Bureau of Safety, all field investigators, with a stenographer.

Mr. THOMAS. These 9 or 10 offices are nothing but your safety offices?

Mr. BOYD. Absolutely.

Mr. THOMAS. What do these people do besides investigate accidents?

Mr. BOYD. That is all they do, and they are occupied on that at all times.

Mr. THOMAS. Where is your limitation? Under how many pounds is it you do not look at?

Mr. BOYD. Under 12,500 pounds.

Mr. THOMAS. Where no deaths occur?

Mr. BOYD. Where no deaths occur.

ACCIDENT INVESTIGATIONS

Mr. THOMAS. How many investigations did you have in fiscal 1963 with these 200 people?

Mr. BOYD. In 1963 there were 960.

Mr. THOMAS. What is your work units on page 90, investigations? You have 960 accidents where people were killed?

Mr. BOYD. We not only investigate accidents where people are killed. Those are the only ones we investigate in light planes. We investigate all accidents involving air carriers, whether there are any fatalities, injuries, or not. We investigate all incidents occurring to air carriers. For example, a nosewheel comes off of a jet, nobody is hurt, but we investigate it because we want to know what caused that.

Mr. THOMAS. Does FAA do the same thing? Are you not doing too much? Why do you not save your good staff, your 15's and 16's, these highly skilled engineers? Why do you get mixed up in that small stuff? Where is your probable cause? Is that not an operating problem in the final analysis?

Mr. BOYD. Not necessarily.

Mr. THOMAS. They should have caught that in the Inspection Service before the plane left the factory when they certified it.

Mr. BOYD. That is right.

Mr. THOMAS. Why should you come in? Yours is probable cause on serious accidents where death occurs and big planes. Why get into chasing rabbits?

Mr. BOYD. It is not chasing rabbits, if I may say so. It is the hope that by finding out what happens in these occasions we can prevent——

Mr. THOMAS. Is not that the job of the operating people?

Mr. GURNEY. They have already looked at it in the manufacturer's plant. We want to see if they have missed anything. We have to.

AUTHORITY FOR ACCIDENT PREVENTION

Mr. THOMAS. Does not the statute say your jurisdiction is to determine probable cause in case of serious accident or death?

Mr. BOYD. No, it does not say that.

Mr. THOMAS. Read what your authority is.

Mr. WANNER. Section 701(a), subsection 5. Includes the duty of the Board of—

ascertain what will best tend to reduce or eliminate the possibility of, or recurrence of, accidents by conducting special studies and investigations on matters pertaining to safety and air navigation and the prevention of accidents.

EXECUTIVE STAFF ACTIVITIES

Mr. SHIPLEY. We will go ahead into executive staff. We will put in the record page 94, which covers the purpose and objectives and the financial requirements. Also 95, which covers part of the justification of the staff requirements.

(The pages follow:)

EXECUTIVE STAFF ACTIVITIES

The offices of members and office of secretary perform the functions of this activity.

I. PURPOSE AND OBJECTIVES

This activity embraces the functions of the members of the Board in fulfilling the general responsibilities assigned to the Board in the Federal Aviation Act of 1958, including the adjudication of cases and the formulation of policies and plans to carry out the provisions of law; and supporting work concerned with

the processing of all documents for Board action; recording, filing, and authentication of Board actions; maintaining custody of all public records, preparation of Board decisions for publication in bound volumes, and distributing information concerning Board actions.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Permanent positions	82.0	82.0	77.0	−5.0
Average number of all employees	78.2	77.9	75.1	−2.8
Obligations:				
Personnel compensation and benefits	$784,754	$819,000	$821,200	$2,200
Other objects	79,398	87,000	87,100	100
Total	864,152	906,000	908,300	2,300

The increase of $2,200 for personnel compensation and benefits is the net result of eliminating five positions offset by the cost of within-grade salary advancements, and increased pay costs pursuant to Public Law 87–793.

III. JUSTIFICATION OF STAFF REQUIREMENTS [1]

The breakdown of staff by organization is shown in the following table:

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Immediate offices of members	29	29	29	
Office of Information	5	5	4	−1
Office of Community and Congressional Relations	4	4	4	
Planning Office	4	4	4	
Office of Secretary	40	40	36	−4
Total	82	82	77	−5

1. *Immediate offices of members.*—The responsibilities of the members of the Board are established by statute and the members are charged with carrying out the duties and functions devolving upon the Civil Aeronautics Board under the Federal Aviation Act of 1958. The Chairman is also the executive head of the Board. Also included is the Executive Director, who is the chief operating and executive staff official of the Board and assists the Chairman in the performance of major administrative and executive functions, and the Board through the coordination of quasi-judicial matters.

2. *Office of Information.*—This Office serves as the primary channel for general inquiries from the public and the press, and prepares or reviews and coordinated proposed press releases and other information materials with Board officials. Three positions formerly reported in the "Safety" activity and two positions formerly reported under the Office of Secretary are included here as a result of the consolidation of the information function in the Office of Information.

3. *Office of Community and Congressional Relations.*—During the fiscal year 1963, the Office of Community and Congressional Relations continued its informal work with the communities in attempting to solve air service problems before they reached the stage of formal proceedings before the Board. In this it has been successful in that no new adequacy of service complaints have been filed with the Board by any city.

The Office was successful in resolving the very knotty Oakland, Calif., air service problem. With the cooperation of civic officials, and the air carriers serving Oakland, jet service was instituted there in June 1963 by several of the carriers. The carriers and Oakland are making all-out efforts to promote this service and it appears to be developing worthwhile traffic.

[1] The data for fiscal years 1963, 1964, and 1965 reflect, on a comparable basis, the transfer of positions during 1964 between this activity and other activities of the Board as explained under the appropriate headings on the following pages.

Liaison has been maintained by the Office with the National Association of State Aviation Officials, the Airport Operators Council, the American Association of Airport Executives, and civic bodies in all parts of the country. Meetings in many communities between the air carriers and civic officials have resulted in a better understanding of the mutual problems of each group and also in improved air service.

The Office will continue these endeavors during fiscal 1964 and 1965 to improve the relations between the air carriers and the communities that they serve. It is difficult to predict what trouble spots may arise, but where they do occur, through personal contact with the air carriers and civic officals, we will attempt to exercise fire-prevention methods rather than firefighting after the fires have started.

Continuing close liaison with the national associations and other Government agencies interested in air transportation will be maintained.

EXECUTIVE STAFF FUNCTIONS

Mr. SHIPLEY. This activity embraces the responsibility of the members of the Board in fulfiling the general responsibilities assigned to the Board in the Federal Aviation Act of 1958, including the adjudication of cases and the formulation of policies and plans to carry out the provisions of law, and the supporting work concerned with the processing of all documents for Board action, recording, filing, and authentication of Board actions, maintaining custody of all public records, preparing of Board decisions for publication in bound volumes, and distributing information concerning Board actions.

For 1965 a total of $908,300, which is an increase of $2,300 over 1964.

Permanent positions for 1964 were 82; you have a reduction shown to 77, a reduction of 5 in 1965. Is the majority of this for personnel compensation?

Mr. BOYD. Yes, sir.

Mr. SHIPLEY. The increase of $2,200 is for personnel compensation benefits and is the net result of eliminating five positions offset by the cost of within-grade salary advancements and increased pay cost.

Justification of staff requirements is shown on page 94. There were 29 in 1964, 29 in 1965 for the immediate office of the members. The Office of Information has a reduction of one from five to four. The Office of Community and Congressional Relations stays the same as the previous years, four in 1965. The Planning Office stays the same at four. The Office of the Secretary shows a reduction from 40 in 1964 to 36 in 1965, a total reduction of four in the Office of the Secretary. For the entire executive staff activities it makes a total reduction of five; is that right?

Mr. BOYD. Yes, sir.

Mr. SHIPLEY. I think everyone is acquainted with the duties and obligations and responsibilities of the members.

CONGRESSIONAL RELATIONS FUNCTION

How many cases has the congressional relations unit handled in 1964 or for a given year?

Mr. BOYD. We do not carry that work by cases, Mr. Shipley. We have more a continuing activity. The complaints about service to communities go immediately to this office. As far as I know, we do not set it up on a case basis. It is just a matter of a continuing function on the part of that office.

Mr. SHIPLEY. Where does their workload originate?

Mr. BOYD. The workload originates through complaints from communities primarily about the quality of service they are receiving. One of the best examples is set forth in the second paragraph under item No. 3. Oakland, Calif., had a brandnew airport and no air service. It filed inadequacy of service complaint with the Board. In an effort to eliminate all of the expense and time involved in a formal hearing, Colonel Dregge, head of this office, made any number of trips to Oakland, meeting with the Oakland officials, San Francisco Airport officials, a competitor, and airlines certificated to serve Oakland.

One of the things that evolved was an agreement to conduct a survey of where people came from to the San Francisco Airport to see how many Oakland passengers were involved in flying out of San Francisco.

As a result of that suvey and of his work, the airlines agreed to provide very considerably expanded services at Oakland. It has wound up now that the service is being provided at Oakland; Oakland is happy; San Francisco does not feel that it has been treated unfairly because this was all done with the knowledge of the San Francisco people, even though they lost frequencies; and the airlines are making a success out of it. This is one of our shining examples, I might say, but on a smaller scale this is what is done to a considerable extent.

OFFICE OF INFORMATION

Mr. SHIPLEY. How about your Office of Information? This Office serves as the primary channel for general inquiries from the public and the press prepares or reviews and coordinates proposed press releases and other information materials with Board officials. Tell us about this. Are you making a transfer there?

Mr. BOYD. Yes, sir. The three positions which are in the Bureau of Safety, dealing altogether with safety information, have been transferred into the Office of Information, so we have one Information Office now instead of two as we had in the past.

One of the primary functions of this Office, in addition to handling safety matters, is that unfortunately many of our orders are extremely complicated and technical orders. So what we try to do is prepare a press release saying, this is what we mean.

Mr. SHIPLEY. That is probably needed.

Mr. BOYD. It seems to be quite helpful.

PLANNING OFFICE—SUBSIDY REDUCTION

Mr. SHIPLEY. The Planning Office. The purpose of the Planning Office is to help the Board in strategic planning of major substantive policies and action programs. What was you major activity in the Planning Office?

Mr. BOYD. I guess the major program of last year was the airlines subsidy reduction program. Another major program has been the compact air transport. We have had the supersonic transport evaluation program now in which we are participating from the economic point of view.

We made a stab at drafting long-range goals. We had a very successful effort, which was handled under the Planning Office in cargo

cost finding so we could get some sort of a feel for what it cost to provide cargo services.

The carriers have worked with us, we have worked with the carriers, so that now we expect a revised formula to be used where everybody means the same thing when they say the same thing about their costs in providing cargo service.

AIR TRANSPORT PROMOTIONAL AND DISCOUNT PRICING

Mr. SHIPLEY. I see where there was a study begun in August 1962 to measure the traffic and revenue results of air transport promotional and discount pricing. How has that worked out?

Mr. BOYD. We had great hopes on that study. We were disappointed.

Mr. SHIPLEY. Are they not participating?

Mr. BOYD. The form that we have suggested to the carriers will be utilized, but the study itself did not give us the information we wanted. The only thing we really found for sure was the carriers did not have any substantial information themselves on whether their promotional fares were good or bad. There was a lot of hip-pocket operation.

That is why we devised this form in the hope that in the future when they put in a promotional fare, they will know and we will know whether it is a success or a failure.

OFFICE OF THE SECRETARY

Mr. SHIPLEY. The Office of the Secretary was reconstituted during the second quarter of fiscal 1964 by the transfer of the Public Information Section, with a staff of two persons, to the Office of the Executive Director and by the transfer of the Office of Secretary of the following components:

From the Office of Carrier Accounts and Statistics, the Reference and Control Unit, three positions——it tells us that you have transferred how many in total?

Mr. BOYD. That would be 26 in and 2 out, a net change of 24,

Mr. SHIPLEY. What were the grades of the 26 you transferred in and the 2 you transferred out?

Mr. BOYD. We can put that in the record.

(The information supplied follows:)

Office of the Secretary

Positions transferred to Office of the Secretary:	
GS–12	1
GS–11	1
GS–10	1
GS–9	3
GS–8	2
GS–7	5
GS–6	1
GS–5	7
GS–4	4
GS–3	1
Total	26

Positions transferred from Office of the Secretary:	
GS–15	1
GS–7	1
Total	2
Net increase	24

Mr. BOYD. These were primarily clerical personnel except the two we transferred out. I believe one is a grade 15 and one is a clerical position, I believe a GS–7. The bulk of the 26 transferred in are clerical.

Mr. THOMAS. May I inquire if you will be good enough to combine these 2 tabs here, executive staff with 77 people, which was a reduction of 5, with your other housekeeping activities known as administrative services, where you have 100. Out of 850 people, in round figures, you have 177 from that doing administrative duties. We will except the Board and its 30 employees. There are still 140 people taking care of 850. That is considerably out of line, gentlemen.

ADMINISTRATIVE SERVICES ACTIVITIES

Look at "Administrative services activities." We will put pages 110 and 111 in the record.

(The pages follow:)

ADMINISTRATIVE SERVICES ACTIVITIES

The Office of Administration performs the functions of this activity.

I. PURPOSE AND OBJECTIVES

To provide for the entire Board: (1) Overall general administration within the Board, including financial management, personnel, organization and procedures, internal administrative policies and regulations and other administrative activities; and (2) supplies and services, including procurement, mail and messenger, reproduction, central files, library and other general office services. In addition, to determine amounts due carriers on monthly billings for subsidy in accordance with applicable rate orders of the Board and at the close of each calendar year under the provisions of the local service class rate, and process carriers' capital gains reports.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Permanent positions	107	106	100	−6
Average number of all employees	99.9	101.7	97.5	−4.2
Obligations:				
Personnel compensation and benefits	$707,724	$760,100	$760,400	$300
Other objects	93,066	113,200	114,700	1,500
Total	800,790	873,300	875,100	1,800

The increase of $300 for personnel compensation and benefits is the result of a decrease of six positions offset by the cost of within-grade salary advancements, and increased pay costs pursuant to Public Law 87–793.

Of the $1,500 increase in other objects, $1,300 is for duplicating supplies related to the increased workload projected for the Board, and $200 is for small increases in cost such as the increase in GSA telephone switchboard rates.

III. JUSTIFICATION OF STAFF REQUIREMENTS

As shown in the above table, a total of 107 positions were utilized during the fiscal year 1963 to perform the various functions comprising administrative services activities; 106 are estimated for 1964 and 100, a decrease of 6 compared with 1964, are requested for the fiscal year 1965. The level of work and distribution of staff (positions) are summarized by function in the

following tables and are explained in subsequent paragraphs covering each such functional area:

	1963		1964		1965		Position increase
	Number of work units	Positions	Number of work units	Positions	Number of work units	Positions	
Personnel	2,520	9	3,140	8.6	3,200	8.6	.....
Management analysis	224	8	248	9.4	241	8.4	−1
Budget and fiscal	21,326	15.7	21,489	15.7	21,483	15.7	.....
Carrier (subsidy) payments	334	7.3	358	7.3	361	6.3	−1
Publications and reproductions	16,273	22.0	18,212	21.0	19,215	21.0	.....
Administrative services	23,429	23.0	26,540	22.0	26,628	21.0	−1
Library services	58,503	4.0	56,552	4.0	59,494	4.0	.....
Central files	.....	14.0	.....	14.0	.....	11.0	−3
Other matters and overall direction	.....	4.0	.....	4.0	.....	4.0	.....
Total	.....	107.0	.....	106.0	.....	100.0	−6

ADMINISTRATIVE OVERHEAD

Mr. THOMAS. You have this for everything but Legal. You have a separate 40 or 50 for that. We have too many chiefs and not enough Indians here. Look at these people doing this housekeeping work. It is more than housekeeping, but it has to be a lot more. Excluding the 30 here doing the work in the Office of the Commissioners themselves, in round figures you have about 145 or 150 people taking care of how many, 850? In the field in your 9 or 10 offices you have another 40 or 50. You have located here in the District of Columbia 140 people taking care of 800. That is considerably high any way you look at it. Of course, we understand you are doing accounting service, bookkeeping.

Mr. BOYD. That is not involved in this.

Mr. THOMAS. That is what your justifications say on page 110. There is nothing new about it. We see it in every agency.

Mr. BOYD. If I may say so, if you will permit me, I will disagree wholeheartedly with you about what is set forth——

Mr. THOMAS. We respect you. You may say anything, although we may not agree.

Mr. BOYD. On page 94, the people involved here, 77 people are not involved in housekeeping in any sense at all.

Mr. THOMAS. Let us look at this. We will exclude the 30 in the Board. Here is the Planning Office with 4, the Office of the Secretary with 36. That is nothing but administrative work, getting out notices, what your hearing examiners did, what the Board did. We exclude your 30.

Mr. BOYD. Mr. Chairman, in the Office of the Secretary we have all of the docket section and indices section.

Mr. THOMAS. We understand that.

Mr. BOYD. We do not consider that housekeeping at all. We could set the examiners off in Los Angeles, and they would still have to have this for their business and for the lawyers and the Board and lawyers on the outside. The Planning Office is composed of four people who are completely involved in substantive work of the Civil Aeronautics Board.

Mr. THOMAS. What is the grade of those people? That is the brain trust section.

Mr. BOYD. One 17, two 16's, and a secretary.

Mr. THOMAS. We cannot complain about that.

Mr. BOYD. The Office of Information, you might consider that as a housekeeping function, I do not know.

Mr. THOMAS. You could not run your shop without the Secretary's Office notifying your customers of what has been done, what you expect to do, when you are going to do it.

Mr. BOYD. The Office of Community and Congressional Relations is to take care of requests by Members of Congress and to deal with——

Mr. THOMAS. We are not going to argue with you. We know what the activities are. We see it every day. You think it is all right. We think it is a little high. Gentlemen, are there any questions?

Mr. BOYD. Please do not leave out our Legal Section.

Mr. THOMAS. We were just combining. Mr. Shipley, will you please proceed with the Legal Section.

LEGAL STAFF ACTIVITIES

Mr. SHIPLEY. We will put in page 103, which describes the legal staff and their activities and the purposes and objectives, which are (reading):

To advise and assist the Board and members of the Board's staff in connection with all legal phases of economic and safety activities and perform specific functions in connection therewith, including responsibility for providing technical assistance in the preparation of Board opinions and orders in formal proceedings, the preparation of all Board regulations, the provision of necessary legal services in connection with accident investigations and Board participation in safety rulemaking proceedings and the handling of litigation matters. This work is essential in order that the Board and its staff will perform their responsibilities in conformity with the requirements of law, and, in the case of litigation, in order that Board actions will be defended and its interests represented in judicial proceedings.

The financial requirements for 1965 are $681,000, which is an increase of $15,400 over 1964. The increase of $14,200 is for personnel compensation. A $1,200 increase is for other objects, a thousand dollars of this is for travel expenses. For the most part, this is in connection with the projected increase in accident investigation hearings and deposition proceedings, and the remainder is for the small increases in costs such as the increase in GSA telephone switchboard rates.

(The page follows:)

LEGAL STAFF ACTIVITIES

The Office of General Counsel performs the function of this activity.

I. PURPOSE AND OBJECTIVES

To advise and assist the Board and members of the Board's staff in connection with all legal phases of economic and safety activities and perform specific functions in connection therewith, including responsibility for providing technical assistance in the preparation of Board opinions and orders in formal

proceedings, the preparation of all Board regulations, the provision of necessary legal services in connection with accident investigations and Board participation in safety rulemaking proceedings, and the handling of litigation matters. This work is essential in order that the Board and its staff will perform their responsibilities in conformity with the requirements of law, and, in the case of litigation, in order that Board actions will be defended and its interests represented in judicial proceedings.

The Office of General Counsel made substantial progress in 1963 toward meeting its two stated objectives of bringing its reports on legislative items up to a current basis and in significantly enlarging its output of procedural and other rules. During the fiscal years 1964 and 1965 the efforts of the Office are to be directed toward the elimination of backlogs in all areas of its work so that all items may thereafter be handled on a current basis. An increase in accident investigation counseling workload is programed in 1965 in accordance with the planned increase in accident investigation hearings and deposition proceedings.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Permanent positions	60	60	58	−2
Average number of all employees	55.2	57.7	56.6	−1.1
Obligations:				
Personnel compensation and benefits	$585,677	$647,000	$661,200	$14,200
Other objects	$21,199	$18,600	$19,800	$1,200
Total	$606,876	$665,600	$681,000	$15,400

The increase of $14,200 for personnel compensation and benefits is the net result of eliminating two positions offset by the cost of within-grade salary advancements and increased pay costs pursuant to Public Law 87–793.

Of the $1,200 increase for other objects, $1,000 is for travel expenses, for the most part in connection with the projected increase in accident investigation hearings and deposition proceedings, and the remainder is for the small increases in costs such as the increase in GSA telephone switchboard rates.

LITIGATION ACTIVITIES

Mr. EVINS. What is the nature of your litigation? We know about opinion-writing and rulemaking. What is the nature of your litigation?

Mr. BOYD. Northeast Airlines case is one. The matter I alluded to this morning of the third carrier attempting to establish service in Hawaii. We are being sued by Pan American for disapproving an application that Pan American and Japan Airlines filed jointly with the Board, which we turned down. We just recently finished another suit that Pan American had filed against us.

Mr. EVINS. Do your lawyers have a good batting average? Do they win these cases for you?

Mr. BOYD. Yes, sir; we have a pretty high-class bunch of lawyers.

Mr. THOMAS. You do not have but seven people involved in litigation. Where is your litigation, in which courts?

Mr. BOYD. Either in the district court or the court of appeals.

Mr. THOMAS. Federal or State?

Mr. BOYD. All Federal.

Mr. THOMAS. What is the nature of the litigation you have in the Federal courts, in the district courts?

Mr. BOYD. I would like to ask Mr. Wanner. I am not sure of the different jurisdictions.

Mr. WANNER. Any final action of the Board is appealable to the circuit court of appeals.

NUMBER OF CASES IN CIRCUIT COURT

Mr. THOMAS. How many cases do you have in the circuit court or did you have in 1963?

Mr. WANNER. Roughly three-quarters of our cases are appeals.

Mr. THOMAS. How many cases in 1963?

Mr. WANNER. Around 35 cases per year.

Mr. THOMAS. How many appellate lawyers do you have?

Mr. WANNER. We have seven in that work which would be roughly four lawyers and three secretaries.

Mr. THOMAS. What is the nature of your suits in the district courts?

Mr. WANNER. Those would be either actions brought by the Board to attempt to bring an injunction proceeding or action——

NUMBER OF LAWYERS AND WORKLOAD

Mr. THOMAS. Where are your green sheets on your legal staff? How many lawyers do you have?

Mr. BOYD. Page 20.

Mr. THOMAS. Judge, your worksheet over on page 104 might be inserted in the record.

(The page follows:)

JUSTIFICATION OF STAFF REQUIREMENTS—LEGAL STAFF

A total of 60 positions were utilized during the fiscal year 1963 to perform the various functions comprising the work of the legal staff activities; 60 are estimated for 1964 and 58, a reduction of 2, for 1965. The functions performed include (1) opinion writing; (2) legal research and assistance; (3) rules, regulations, and policy; (4) litigation; (5) legislation; and (6) special projects and overall direction. The situation with respect to each of these functions is set forth in paragraphs which follow:

	1963		1964		1965		Position increase
	Number of work units	Positions	Number of work units	Positions	Number of work units	Positions	
Opinion writing	148	20	153	20	155	19	−1
Legal research and assistance	323	16	325	16	328	15	−1
Rules, regulations, and policy	123	8	115	8	122	8	
Litigation	26	7	40	7	35	7	
Legislation	104	4	101	4	111	4	
Overall direction		5		5		5	
Total		60		60		58	

LEGAL RESEARCH

Mr. THOMAS. Here is your breakdown. Opinion writing, legal research. What are you researching and when do you get through with the research?

Mr. BOYD. I do not think we ever get through with that. The justification for that is set forth on 105.

Mr. THOMAS. I am looking at it. It seems we are a little topheavy here.

Mr. BOYD. No, sir.

Mr. THOMAS. Legal research involves performance of legal research and the rendering of opinions thereon in relation to legal problems of unusual difficulty or importance. You are making a distinction from your day-to-day inquiries involving points of law from Members of Congress and from the general public from research? We always get supsicious of all these fancy words. What does it all mean? How many lawyers out of the 60 people do you have and how many stenographers, and so forth?

Mr. WANNER. About 40 lawyers and 20 secretaries, about 2 to 1.

LAWYERS APPEARING BEFORE TRIAL EXAMINERS

Mr. THOMAS. In an agency your size, what do you do with 40 lawyers? How many of them appear before your trial examiners, how many trial lawyers that go before the trial examiners?

Mr. WANNER. None of the lawyers in this unit would appear before the trial examiners.

Mr. THOMAS. Where are the lawyers that appear before your trial examiners?

Mr. WANNER. They are in the Bureau of Economic Regulations.

Mr. THOMAS. How many do we have there?

Mr. WANNER. And in the Enforcement office?

Mr. BOYD. There are 30 trial lawyers in the Bureau of Economic Regulation.

Mr. THOMAS. Any in rates and fares?

Mr. BOYD. That covers the entire economic area except for enforcement. That is rates, routes, and fares.

Mr. THOMAS. How many do you have in Enforcement?

Mr. BOYD. We have 10 lawyers in Enforcement.

Mr. THOMAS. Thirty, forty, and forty. How many is that?

Mr. BOYD. Eighty lawyers.

Mr. THOMAS. Eighty lawyers? That is about 50 too many. Mr. Shipley, you go ahead.

Mr. SHIPLEY. We covered "Rules and regulations and policies." You covered "Litigation," Mr. Chairman. How about "Legislation" on page 107?

Mr. THOMAS. We know what that is.

Mr. SHIPLEY. We shall put pages 105, 106, and 107 in the record.

(The pages follow:)

LEGAL RESEARCH AND ASSISTANCE

Involves performance of legal research and the rendering of opinions thereon in relation to legal problems of unusual difficulty or importance; providing legal and related policy advice to the Board, its staff, and the public, including specialized expertise in legal problems related to route, rate, intercarrier and intercorporate relationships, labor, international, accident investigation, and Federal-State relations matters. The workload and staff requirements for this function are summarized below:

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Workload:				
Research projects completed	230	220	220	----------
Accident investigation counseling	93	105	108	3
Special legal counseling activities (the nature of this work is such that no feasible means has been found to measure it in terms of work units).				
Position requirements:				
Attorneys	11	11	10	−1
Secretarial and clerical	5	5	5	----------
Total	16	16	15	−1

The volume of research projects and special legal counseling activities is expected to remain fairly stable. However, an increase is anticipated in accident investigation counseling, particularly in view of the large number of recent tort actions filed against the United States, with increasing demands upon the time of the staff in dealing with requests for testimony and the planned increase in the number of accident investigation hearings and deposition proceedings. It is anticipated that the work can be kept current in these overall fields through the more efficient use of manpower and allow a reduction of one position in 1965.

RULES, REGULATIONS, AND POLICY

Involves the preparation, review, and coordination of Board regulations and policy statements and participation in safety rulemaking proceedings. The workload and staff requirements for this function are summarized below:

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Workload:				
Completed during year: Economic, procedural, and special regulations and policy statements:				
Amendments and additions	95	82	90	+8
Notices of rulemaking	25	30	29	−1
FAA safety rulemaking proceedings	3	3	3	----------
Total completed	123	115	122	+7
Received during year	115	109	117	+8
Uncompleted work on hand at end of year	38	32	27	−5
Position requirements:				
Attorneys	5	5	5	----------
Secretarial, typing, and clerical	3	3	3	----------
Total	8	8	8	----------

The Board's program of procedural reform, the increased statutory responsibility with respect to supplemental air carriers and civil penalties, and a program for reduction of rulemaking backlog resulted in a substantial increase in rulemaking projects in 1963. Some reduction in the workload is expected for 1964 but thereafter the continuing growth of the air transportation system is expected to increase the volume of work of this function.

LITIGATION

Involves defense of Board orders and actions in the courts, including the drafting of all necessary documents and arguing of cases. The workload and staff requirements for this function are summarized below:

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Appeals from Board orders and related litigation:				
Number of cases received	33	36	36	
Carryover from preceding year	14	21	17	−4
Total worked on	47	57	53	−4
Cases concluded	26	40	35	−5
Uncompleted work on hand at end of year	21	17	18	
Position requirements:				
Attorneys	5	5	5	
Secretarial, typing, and clerical	2	2	2	
Total	7	7	7	

The number of litigation cases received is expected to increase slightly in 1964 and continue at that level in 1965. No increase in staff is requested.

LEGISLATION

Involves preparation of the Board's legislative program and comments and testimony on legislation. The workload and staff requirements for this function are summarized below:

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Workload:				
Reports completed on pending legislation	87	80	90	+10
Legislative drafting	12	10	10	
Preparation of testimony	5	11	11	
Total completed	104	101	111	+10
Uncompleted work on hand at end of year	36	44	35	−9
Position requirements:				
Attorneys	2	2	2	
Secretarial, typing, and clerical	2	2	2	
Total	4	4	4	

In addition to the workload shown above, staff assigned to this function provide a substantial amount of assistance in appearances before congressional committees and committee staffs. It is anticipated that the workload will remain fairly stable, and no changes in staff for this function are anticipated.

OVERALL DIRECTION

The provision of guidance and direction for the operating divisions of the Office; the rendition of legal and related policy advice to the Board, its staff and the pub-

lic; and the exercise of control over the operating divisions from the standpoint of all necessary coordination, supervision, review, and administration; the rendition of staff decision on legal problems that involve the most complex, novel, and significant matters, are accomplished by the immediate Office of the General Counsel. The staff requirements for this function follow:

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Position requirements:				
Attorneys (General Counsel and Deputy General Counsel)	2	2	2	
Secretarial, typing and clerical	3	3	3	
Total	5	5	5	

OTHER OBJECTS OF EXPENSES

Mr. EVINS. Other objects, transportation of persons, is up $31,000 from $673,000 to $705,000. Transportation of things is up $20,000, $22,000. Two items stay the same but you have no decreases. Communications are up $28,000. Mr. Chairman, why the $28,000 increase for rents?

Mr. BOYD. That is the memory unit primarily. We rent those, Mr. Evins.

OTHER SERVICES

Mr. EVINS. Other services up $55,000. What are these other services?

This is page 120.

Mr. BOYD. Repair of office machines and other equipment; this appears at the bottom of page 122: Repair and maintenance of office space, rental cars space, cars rented from GSA motor pool, health room services, security investigations for personnel having access to classified material.

Mr. EVINS. It was $189,000 last year. Do you have to have more this year?

Mr. BOYD. Analysis and checking of aircraft parts, including teardown, salvage accident wreckage, reporting, other expenses incurred in relation to aircraft accidents, tuition, related fees—yes, sir; I think we do.

BUDGET FORMULATION

Mr. EVINS. Who makes up this budget for these items, Mr. Chairman?

Mr. BOYD. The budget is made up in the first instance by the Bureau. It then goes to the Office of Administration, Mr. Russell; it then goes to the Executive Director. It then comes to me. It then goes to the Board.

Mr. EVINS. During this process are there any reductions from what the original bureau chief suggested he have for the next year?

Mr. BOYD. Tremendous; yes, sir.

Mr. EVINS. You show no reductions and only two items are the same.

Don't you think you can make a few reductions in other objects?

Mr. BOYD. All I can say, Mr. Evins, we gave this our best effort and this is where we came out.

Mr. EVINS. We will place in the record pages 120 through 122.

(The pages follow:)

OTHER OBJECTS

This statement covers all requirements of the Board for other objects (expenses other than personnel compensation and benefits). The estimates for most object classifications reflect increases over 1964 and are related to the program and staff increases (12 new positions in the "Safety" activity) and decreases (26 positions in other activities of the Board) set forth in the justification statements covering the several budgetary activities.

The following statements show the actual obligations incurred for the fiscal year 1963; estimates for the fiscal years 1964 and 1965; and the increase for 1965 over 1964—by object class and by budgetary activity:

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
BY OBJECT CLASS				
21 Travel and transportation of persons	$554,697	$673,500	$705,200	$31,700
22 Transportation of things	12,752	20,900	22,200	1,300
23 Rents, communications and utilities	271,296	289,900	318,100	28,200
24 Printing and reproduction	89,125	88,600	88,600	----------
25 Other services	148,160	189,400	244,400	55,000
26 Supplies and materials	101,845	102,500	108,800	6,300
31 Equipment	49,426	58,000	63,600	5,600
42 Insurance claims and indemnities	1,315	1,500	1,500	----------
Total	1,228,616	1,424,300	1,552,400	128,100
BY ACTIVITY				
1. Economic regulation:				
(a) Operating authorities and practices	49,258	57,200	62,600	5,400
(b) Rates and fares	33,132	35,800	39,200	3,400
(c) International aviation agreements	14,807	19,100	25,400	6,300
(d) Economic enforcement	47,623	45,300	47,600	2,300
(e) Hearing activities	39,611	37,500	40,000	2,500
(f) Accounting regulations and audits	312,425	333,900	355,000	21,100
(g) Statistical and research	21,029	23,400	24,300	900
Total	517,885	552,200	594,100	41,900
2. Safety activities	517,068	653,300	736,700	83,400
3. Board adjudication, executive and legal staff activities:				
(a) Executive staff activities	79,398	87,000	87,100	100
(b) Legal staff activities	21,199	18,600	19,800	1,200
Total	100,597	105,600	106,900	1,300
4. Administrative services activities	93,066	113,200	114,700	1,500
Total, all activities	1,228,616	1,424,300	1,552,400	128,100

TRAVEL

The $705,200 requested for 1965 is an increase of $31,700 over the $673,500 available in 1964.

These funds requested are for travel expenses incurred in conducting route and rate hearings in the field, class subsidy rate matters, participating in negotiations and consultations as members of U.S. delegations outside of the United States, auditing the carriers records at the site of operations, conducting accident investigations and hearings, investigation and enforcement of the Board's rules and regulations, participating in court cases, attending training courses, necessary transfers of employees and their dependents for the benefit of the Government, and performing emergency preparedness functions.

The increase requested in 1965 is for:

	Increase
1. For participation in route proceedings in the field	$5,000
2. Travel expenses (including rental of aircraft) in connection with 10 new technical positions requested in 1965 for accident investigation activities and increased number of public hearings	11,700
3. Travel expenses in connection with the field audit of air carrier accounts and records	4,000
4. Travel expenses in connection with class subsidy rate matters and conferences on IATA matters	3,000
5. Travel expenses in connection with negotiations and consultations in the International Aviation Agreement activity	6,000
6. For increased investigation workload in the economic enforcement field	2,000
Total increase	31,700

TRANSPORTATION OF THINGS

The $22,200 requested for 1965 is an increase of $1,300 over the $20,900 available in 1964. The increase is for transportation of household effects of employees assigned to field offices.

RENTS, COMMUNICATIONS, AND UTILITIES

The $318,100 requested for 1965 is an increase of $28,200 over the $289,900 programed for 1964. Under this heading is included rent and utility costs incurred for office space and utilities for field offices, the cost of renting office machines, tabulating machines, and electronic computer equipment, rental of warehouses for aircraft wreckage mockups and space for holding hearings in connection with the investigation of aircraft accidents, local telephone service, toll calls, penalty mail, postage, telegraph charges, rental of post office boxes, and teletypewriter charges. The increase requested is for:

	Increase
1. Provision of essential communication facilities and service, including the increase in GSA telephone switchboard rates	$7,400
2. Rental of an additional memory unit for the electronic computer	13,000
3. Increase in rental of warehouses, hearing rooms, and public address systems in connection with investigation of accidents and increase in number of public hearings	7,800
Total increase	28,200

COST OF COMPUTER SYSTEM

Mr. THOMAS. Inquire how much rent they are paying on the computer, what kind of contract they have on it and whether they can buy it.

Mr. EVINS. How many computers do you have, how much is the cost, how much rent do you pay, how much annual repair are you charged?

Are you able to reduce any personnel by reason of the purchase of the computers?

Mr. BOYD. I think that is where some of the savings are coming from.

Mr. EVINS. Can you show us some for the record?

Mr. BOYD. On the computer, we have got one computer system, which is called a 1401 and the rental on that is $89,020 for 1964 and $102,020 for 1965.

Mr. EVINS. Do these charges progressively go up each year?

Mr. BOYD. No. These charges as I understand it are standard. I do not know the answer to your question as to maintenance.

Mr. THOMAS. That is an additional unit?

Mr. BOYD. Yes, sir.

Mr. THOMAS. How many units do you have?

That is an additional unit?

Mr. BOYD. That is an additional memory unit. This system is made up of a variety of things, Mr. Chairman. I will take just a minute. There is one E–4 processing unit, one card reader punch.

Mr. THOMAS. Are they all separate units or are there different gadgets in one of these things?

Mr. BOYD. They are different components of a system. This is the way they are charged to us.

PURCHASE OF COMPUTER

Mr. THOMAS. Are you planning to buy it? What can you buy it for?

Mr. BOYD. They can be bought.

Mr. THOMAS. If you have the machine that does your work, of course you have to be sure you have the right machine; if not, you will have a white elephant. The minute you are sure you have the machine that serves your purpose you had better buy it. You will save money. What can you pay for the machine?

Mr. BOYD. $250,000.

Mr. THOMAS. You can pay for it in 2½ years, does it do your job?

Mr. BOYD. Mr. Hord is what we have what we want, and if it is, why don't we buy it?

Mr. HORD. It is almost obsolete now, the one we have.

Mr. THOMAS. How long have you had it?

Mr. HORD. A year and a half.

Mr. THOMAS. Obviously that is not the one you want to buy, then.

Mr. BOYD. Of course, the rent——

Mr. THOMAS. When you get back you and your Board ought to take another look at this and familiarize yourself with the details of it and see whether you should get rid of it or buy it.

Obviously you should not buy this one. Our distinguished friend says it is obsolete now. These things can run into money. Some of the agencies have had their unpleasant experiences with them. Like he says, they become obsolete before they know it. Some of them purchased and now they have a white elephant on their hands. Familiarize yourself with the details.

Mr. BOYD. We will do that. Mr. Driscoll tells me we have a study going on now to see what would be the best.

Mr. EVINS. Are there further questions on other objects? If not, there is one other tab, "Payments to carriers."

Mr. THOMAS. I think Mr. Shipley has been familiarizing himself with that. Would you work that out for us, Mr. Shipley? You are quite familiar with the details of it.

Payments to Air Carriers

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Domestic operations		2,800	3,700
2. Local service operations	68,975	68,421	67,824
3. Helicopter operations	5,379	4,300	3,000
4. Alaskan operations	8,030	10,792	8,614
5. Hawaiian operations	355	1,343	886
Total program costs funded—obligations (object class 41)	82,740	87,656	84,024
Financing: New obligational authority (contract authorization (72 Stat. 731))	82,740	87,656	84,024

Status of unfunded contract authorization

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Unfunded balance brought forward	6,287	5,166	8,536
Contract authorization	82,740	87,656	84,024
Administrative cancellation of contract authorization [1]	−996	−286	−1,832
Unfunded balance transferred to Proposed for separate transmittal		−5,000	
Unfunded balance carried forward	−5,166	−8,536	−7,904
Appropriation to liquidate contract authorization	82,864	79,000	82,824

[1] Adjustment of obligations of prior years.

Mr. Shipley. Mr. Reporter, put in the record pages 125 through 133, inclusive.

(The pages follow:)

Payments to Air Carriers, Budget Year 1965

Summary of requirements

[In thousands]

Appropriation, 1964	$79,000
Add:	
Unexpended balance brought forward June prior year (1963)	1,478
Estimated supplemental	5,000
Total requirements, 1964	85,478
Net payments, 1964	85,478
Base for 1965	0

REQUIREMENTS FOR 1965

By activity:	
Domestic trunklines	3,700
Local service operations	68,297
Helicopter operations	3,108
Alaskan operations	8,665
Hawaiian operations	886
International operations	−1,832
Net payments, 1965	82,824
Total estimate of appropriation, 1965	82,824

Summary of estimated obligations and payments

[In thousands]

	Actual, 1963	Estimate, 1964	Estimate, 1965
Estimated subsidy accrual (amount to be due carriers under final mail rates for carrier operations during the year)	$84,179	$85,011	$83,200
Deduct that part of the above subsidy accrual which is not expected to be covered by mail rates until later years	−2,035	0	0
Subtotal, obligations for carrier operations during the year	82,144	85,011	83,200
Obligations for carrier operations in prior years	595	2,645	824
Gross obligations	82,739	87,656	84,024
Reduction of amounts obligated in prior years	−996	−286	−1,832
Total (net) obligations	81,743	87,370	82,192
Unliquidated obligations:			
Brought forward from prior years	6,880	6,845	8,536
Carried forward at end of year	−6,845	−8,536	−7,904
Uncollected refunds:			
Brought forward from prior years	−122	−201	0
Carried forward at end of year	207	0	0
Net payments	81,857	85,478	82,824

JUSTIFICATION

It is estimated that subsidy will be required in fiscal 1965 for the following categories of services: (1) domestic trunkline operations; (2) local service operations; (3) helicopter operations; (4) Alaskan operations; and (5) Hawaiian operations, with approximately 82 percent of the total required to support local service to the relatively smaller communities in the continental United States.

Subsidy payments are estimated to total $85,478,000 during the fiscal year 1964 and $82,824,000 in 1965, a decrease of $2,654,000. However, the $85,478,000 for 1964 is $6,478,000 more than the $79 million appropriated for 1964. Therefore, after reflecting cash brought forward from the prior year in the amount of $1,478,000, a supplemental appropriation for 1964 is projected in these estimates in the amount of $5 million. The supplemental appropriation will be required to pay the carriers' subsidy bills as they become due. This is a no-year appropriation for "liquidation of contract authorization."

The payment estimates are based on estimated subsidy accruals, with the relationship of "Subsidy accrual" to "Payments" for the fiscal years 1963, 1964, and 1965 shown in the following table:

[In thousands]

	1963 actual	1964 estimate	1965 estimate
Subsidy accrual: Estimated amount to be due carriers under final subsidy rates for carrier operations during the year	$84,179	$85,011	$83,200
Add: Unpaid subsidy accrual for prior year (brought forward)	5,673	7,995	7,528
Deduct: Unpaid subsidy accrual at end of year (carried forward)	−7,995	−7,528	−7,904
Subsidy payments: Estimated amount which will require payment during the year	81,857	85,478	82,824

As shown above, the total amount of subsidy payments in any fiscal year is not in direct proportion to the estimated subsidy accruing to the carriers during that fiscal year. This is further illustrated in the following table which shows

the breakdown of total payments during the fiscal years 1963, 1964, and 1965, to the fiscal year of carrier operations:

[In thousands]

	Actual, 1963	Estimate, 1964	Estimate, 1965
Fiscal year of carrier operations:			
1960 and prior years	—$271	—$156	—$1,477
1961	46	407	469
1962	6,898	—243	0
1963	75,184	8,995	0
1964		76,475	7,156
1965			76,676
Total	81,857	85,478	82,824

It is the subsidy accrual figures—relating, as they do, the subsidy to the year in which the service is rendered—which provide the most accurate indicator of the level of subsidy. The following table shows by carrier group the Board's latest estimates of subsidy accruing to the air carriers for operations conducted by the carriers during each of the fiscal years 1954 through 1965.

[Amounts shown in thousands]

Fiscal year	Total	Carrier group					
		Domestic trunk-lines	Local service operations	Helicopter operations	Alaskan operations	Hawaiian operations	International operations
1954	$41,079	$3,316	$18,389	$1,965	$5,454	$497	$11,458
1955	39,790	2,825	22,358	2,656	6,530	293	[1] 5,128
1956	43,217	1,820	24,120	2,735	6,283	291	[1] 7,968
1957	48,626	1,585	28,444	3,771	6,248	216	[1] 8,362
1958	52,539	2,282	32,703	4,419	6,676	45	[1] 6,414
1959	50,016	1,201	36,451	4,866	7,336	168	
1960	65,737		51,808	4,930	8,669	330	
1961	72,735		57,420	5,538	9,272	505	
1962	80,877		65,725	5,780	9,034	338	
1963	84,179		69,192	5,000	9,467	520	
1964	85,011	2,800	67,800	4,300	9,225	886	
1965	83,200	3,700	67,000	3,000	8,614	886	

[1] Includes $1,371, $1,336, $1,459, and $1,503 for fiscal years 1955 through 1958, respectively, for the Alaskan operations of Pan American.

Determination of subsidy

Once a carrier has been certificated for carriage of mail, provision of mail pay, including subsidy in those situations where the carrier demonstrates a statutory need for subsidy, is provided for by the act for the duration of the carrier's operations under its certificate. The policy of the Board has been to establish a subsidy rate, where required, in an amount sufficient to cover the carrier's operating loss incurred under honest, economical, and efficient management and provide it an opportunity to earn a fair return (after taxes) on the investment used and useful in the carrier's air transportation services.

Neither the act nor the Board guarantees that each carrier will earn a profit at the above levels, but the rates are established so as to provide reasonable opportunity to do so under conditions of honest, economical, and efficient management. In other words, the Board has adhered to the public utility rate regulatory pattern, under which losses incurred by carriers in past years while on closed rates cannot be made up with subsidy in fixing future rates; and at the same time, rates, once established, remain final and closed until reopened. The Board has the power under the act to reopen rates prospectively on its own initiative. Pursuant to this power, the Board maintains a continuing review of all established mail rates, and has reopened numerous rates, including those of self-sufficient as well as subsidy carriers. In this manner, the Government ultimately reaps the benefit, through decreased mail pay-

ments, of the economies effected by the carriers—economies which management has maximum incentive to develop because, while operating under a closed rate, the carrier bears the risk of losses but at the same time has the benefit of bettered earnings resulting from improvements in operations.

Th total of the subsidy in any given case depends upon the volume of service and extent to which the revenues of the carrier from all commercial sources (including the service mail payments from the Postmaster General) fail to meet its prudently incurred costs. In establishing rates since 1938, the Board has developed ratemaking principles of general applicability to implement the mandate of section 406(b) of the act that only those losses which are incurred under "honest, economical, and efficient management" shall be underwritten with subsidy. Therefore, the basic determinations in subsidy rate cases involve (1) reasonableness of capacity operated; (2) reasonableness of costs; (3) the proper investment base to be recognized for rate purposes and the related fair return; and (4) the amount of revenue to be recognized for rate purposes.

While the Board has no power to limit the number of schedules operated by a certificated air carrier, it can and does refuse to provide subsidy for schedules instituted by management which, from a business standpoint, do not appear to carry any hope of being profitable or are otherwise not justified. The Board has, in many instances, decreased the subsidy which would otherwise be required by refusing to underwrite nonproductive operations over various segments of a carrier's routes. As indicated previously, the Board has adopted standards in this area, among others, as guidelines to the carriers in planning their volume of service.

One important technique employed in determining the reasonableness of costs is comparison of the expenses of any given carrier with those of like carriers. Where one carrier's costs exceed those of comparable carriers, the excess will not be recognized by the Board unless there may be circumstances which clearly justify doing so. Apart from costs not allowed as the result of application of the comparative technique, various other expenses are not allowed based upon differing considerations. For example, it is the firm rule of the Board that expenses in the nature of charitable contributions, costs of entertainment, or excessive salaries will not be underwritten with subsidy.

In determining the recognizable amount of revenues, all sources thereof are scrutinized. In the case of profits earned by the carriers for services performed in military airlift operations, for example, the amount of such profit has been accounted for in determining the subsidy required by such carriers. Net revenues from other types of transactions, such as charters, are similarly considered in determining a carrier's subsidy requirement.

Consistent with the above policies and principles, as regards the local service carriers, a subsidy class rate is in effect, which by its own terms, automatically adjusts the subsidy payments with changes in the character of a carrier's operations. In addition, the class rate contains a profit-sharing clause whereby the carrier shares with the Government profits earned in excess of a specified rate of return on graduated bases.

The procedures of the Board provide for a continuous review, on as extensive a basis as its resources will permit, of the overall situation with respect to the subsidized carriers. Their operations are reviewed to determine whether particular services have become so costly as to require elimination completely or whether the carrier's route structure should be modified in such manner as to decrease its dependence upon the Government for subsidy.

It is also the Board's policy to maintain a continuing review of the financial results of each carrier operating under a final rate, so as to permit reduction of the rate itself where a decreasing requirement is indicated.

Subsidy by carrier group

A. Domestic trunkline.—Subsidy of $3,700,000 is projected in this area for fiscal 1965. This represents the support required to sustain the New England services of Northeast Airlines, Inc. The $3,700,000 represents the final subsidy rate established by the Board for Northeast on October 4, 1963, in conjunction with its decision not to renew the services of that carrier south of New York. The $3,700,000 is solely for the New England regional services and accordingly all other domestic trunklines are expected to continue to be subsidy free, a status which they have generally occupied since the early 1950's. In this connection, one domestic trunkline (Eastern Airlines) has a formal petition pend-

ing in which it claims substantial subsidy from July 9, 1962, forward. It is considered inappropriate and premature at this time to budget subsidy related to this petition, since the timing of its disposition and the outcome of the matter is conjectural.

B. Local service operations.—Subsidy for the 13 local service carriers is currently estimated at $67 million, or about 1 percent less than the $67,800,000 now estimated for fiscal 1964, subject to the qualifications noted below. For fiscal 1964, the Board originally projected subsidy aggregating $66,192,000 which would have been $3 million less than the $69,192,000 forecast and, in fact, experienced for fiscal 1963. The $66,192,000 figure for 1964 did not include the impact of the routes activated by Trans-Texas in the fall of 1963, pursuant to the Board's decision in the *Southwest Local Service Area* case; and these awards will increase the subsidy in the net amount of $1,121,000 annually, or approximately $800,000 in fiscal 1964. In addition, on the basis of current data, it does not appear that the amount of subsidy previously estimated to be recaptured through the profit-sharing provisions of the local service class subsidy rate formula will eventuate. After reflecting these factors and subject to other considerations adverted to hereinafter, it currently appears that the subsidy accrual for the local service industry for fiscal 1964 should be $67,800,000.

The 1965 estimate of $67 million includes a full year of operation of the routes newly awarded to Trans-Texas. Excluding this factor, the 1965 estimate is some $1 million less than that for fiscal 1964. The 1965 estimate is tentative at this time in that: (1) it is based upon existing policies of the Board and does not reflect any increases or decreases that would stem from the implementation of the programs set forth in the Board's June 1963 report to the President, since the status of such programs has not been determined finally at this time; and (2) while the Board and its staff are currently reappraising and reassessing the economic needs of the 13 local service carriers for the purpose of establishing a new final class subsidy rate during 1964, the outcome of the subsidy proceedings in which the revised rate is to be established will not be known until a subsequent period of time. These two factors render the $67 million estimate a tentative one, subject to revision upward or downward to accord with further developments in these two areas.

C. Helicopter operations.—Consistent with the limitation in the subsidy appropriation language for fiscal 1964, subsidy for the three helicopter operators serving the Chicago, Los Angeles, and New York metropolitan areas is budgeted at $4,300,000 for 1964. A total of $3 million is requested for fiscal 1965. These figures are approximately $1.5 million and $2.8 million less than the $5,775,000 requested by the Board for 1964 for helicopter services.

The Board's request anticipated a bulge in subsidy for fiscal 1964, since that would represent the first full year of experimentation and operation of new turbine-powered equipment by both Los Angeles and New York. It also reflected the expectation that as the turbine aircraft, which hold out the promise of more economical operations due to increased reliability of performance and decreased seat-mile costs, become fully integrated the subsidy need of each of the two carriers would decline substantially in 1965 and subsequent periods.

The three helicopter carriers have been operating under temporary rates since July 1, 1963. The Board's staff is currently exploring with the carriers, on an informal basis, the scope and character of operations which may be possible at a total subsidy cost not in excess of $4,300,000 as specified in the 1964 Appropriation Act.

D. Alaskan carriers.—Seven carriers are currently eligible for subsidy for services provided solely within the State of Alaska, of which six currently require subsidy. Four carriers provide services between the Pacific Northwest and the State of Alaska, of which two currently require subsidy, and these two also provide some amount of intra-Alaska services.

The level of subsidy estimated for all Alaskan services shows a favorable trend from the 1963 level of $9,467,000 to $9,225,000 estimated for 1964 and $8,614,000 for 1965. This decline is anticipated essentially as the result of the significant upward trend in mail volume, based upon Post Office Department estimates, since increased payments for mail services serve to reduce the carriers' subsidy need in substantially the same manner as any other source of commercial revenue. However, the actual subsidy for both 1964 and 1965 may prove to be significantly higher, depending upon current and future developments in requirements of the two subsidized carriers providing service between the Pacific Northwest and the State of Alaska. As regards these services,

the Board has been convinced for a considerable period of time that the particular markets involved cannot economically support four carrier services—the two subsidized and the two nonsubsidized. The Board had, in earlier years, commenced proceedings looking toward an economical amalgamation or combination of the services in this area, which proceedings were terminated as the result of congressional action. Recognizing that, with the advent of the large jet aircraft currently operated by all four carriers in the States-Alaska market, the situation would worsen, the Board met with all four carriers in the hope that it could thereby encourage a consolidation of services with a consequent reduction in subsidy. Its efforts having failed, the Board then instituted a formal investigation for the same basic purposes, which was halted in 1962 by adversary court proceedings. The Board, nevertheless, is pressing forward with its investigation, within legal limits, and formal hearings are currently being held in that proceeding. As indicated in the Board's subsidy appropriation presentation last year, while the Board continues to seek other avenues for tailoring the subsidy in this area, in the absence of successful conclusion of the formal investigation referred to above—or some voluntary consolidation by the carriers—there is no reasonable prospect that the subsidy, from an economic standpoint, can be stabilized or substantially reduced.

E. Hawaiian carriers.—The two carriers serving the State of Hawaii are estimated to require the same amount of subsidy in fiscal 1965 as currently estimated for 1964—$886,000 each year. These estimates assume that third carrier services, authorized by the State public utilities commission in 1963 but enjoined by the Federal District Court of Hawaii in mid-1963, will not be reinstituted, and that the carriers' use of four-engined equipment for expanded traffic needs will have a beneficial effect on their operating requirements.

F. General.—No subsidy is budgeted for any U.S. air carrier providing international services, although Panagra and Braniff have formal subsidy claims pending involving substantial amounts of subsidy for these areas. The status of these cases is such that it is considered premature in terms of cash requirements to budget subsidy for either of these two carriers for fiscal 1964 or 1965.

SUBSIDY PAYMENTS AND AWARDS

Mr. SHIPLEY. It shows on page 125 that the net payment from 1965 is $82,824,000 and on page 126 it has a breakdown or a summary of estimated obligations and payments, which gives the actual and estimate for 1964 and 1965, which shows the net payments will be $82,824,000 in comparison with $85,478,000 in 1964.

Mr. Chairman, would you take one moment on page 127, where it shows the estimate for 1964 and 1965, on the subsidy accrual, where you add an unpaid subsidy accrual for a prior year? Would you go into that for a moment?

Mr. BOYD. Yes, sir. I will try to. I think that the second paragraph on page 127 will cover that fairly well. [Reading:]

Subsidy payments are estimated to total $85,478,000 during the fiscal year 1964 and $82,824,000 in 1965, a decrease of $2,654,000. However, the $85,478,000 for 1964 is $6,478,000 more than the $79 million appropriated for 1964. Therefore, after reflecting cash brought forward from the prior year in the amount of $1,478,000, a supplemental appropriation for 1964 is projected in these estimates in the amount of $5 million. The supplemental appropriation will be required to pay the carriers' subsidy bills as they become due.

That is what you call a no-year appropriation?

Mr. BOYD. Yes, sir.

Mr. THOMAS. In other words, we missed our guess by about how much? What did we miss it by the year preceding?

Mr. BOYD. The year before——

Mr. EVINS. About $4 million.

Mr. BOYD. About 3½.

Mr. THOMAS. But that was in the form of what; plus rather than minus?

Mr. BOYD. I am not sure that I follow you. You mean we were up.

Mr. THOMAS. Yes.

Mr. BOYD. I think we are always up. We seem to be.

Mr. THOMAS. That is what it is, that is correct. We worked it out this morning.

SUBSIDY FOR NORTHEAST AIRLINES

Mr. SHIPLEY. On page 130, subsidy by carrier group, it shows domestic trunk lines subsidy of $3,700,000 is projected in this area for fiscal year 1965. This represents the support required to sustain the New England services of Northeast Airlines, Inc. The $3,700,000 represents the final subsidy rate established by the Board for Northeast Airlines on October 4, 1963, in conjunction with the previous decision.

Are there any questions?

PASSENGER VOLUME REPORTED

Mr. EVINS. Mr. Chairman I think we talked once before about going behind the numbers of passengers as reported to be enplaned at a particular station. Do you just take any figures that the local people certify to you? Do you go behind them? Do you look into these figures and determine who is riding and what groups and classes of people are there, whether they are carrying schoolchildren into the next town, giving them a free ride, with rotary clubs sponsoring the trips so they can build up their percentage of enplanements? Do you have any system or method, or do you have any intention of going behind and checking the types of enplanement?

Mr. BOYD. We have the ticket list available to examine but that does not give us anything as to who the people are and we have, so far as I know, always taken the position that the motive of a traveler was none of our business. There have been criticisms of providing air service to Las Vegas because people go there to gamble.

Mr. THOMAS. He did not ask you that. He asked if you checked to see whether they got a free ride.

Mr. BOYD. Yes, sir. We check to see that the cash represents the ticket sales. It is against the law to give free rides.

Mr. EVINS. I did not ask particularly about motives. I was asking whether or not you checked whether they were free rides or whether they were promotional deals underway.

Mr. BOYD. We know about the promotional deals because those are tariffs filed with the Board, but they apply to everybody.

Mr. EVINS. The rotary club raises $500 and gives the children a free ride to the next town for their first or second airplane ride.

Mr. BOYD. We figure that is none of our business. As long as the airline is being paid the tariff rate for the people who travel in cash that is the extent of our interest.

Mr. EVINS. My question is you just take all figures for granted and do not go behind them?

Mr. BOYD. That is right, sir.

Mr. MURPHY. I would like to have your view. What do you think we should be doing about that situtation?

Mr. EVINS. I am asking the Board what they do; what are their practices?

Mr. BOYD. I think we have operated on the theory that as long as the passenger pays for the ticket, it is really not a great deal of our business who the passenger is or why he is traveling. I can just imagine the trouble we would get ourselves into by alleging that somebody was not a legitimate traveler if that person had paid for the ticket or if the ticket had been paid for.

FORMULA FOR SUBSIDY DETERMINATION

Mr. THOMAS. What Mr. Evins is primarily asking is just how much investigation does the Board give to the economics involved in this subsidy. We are just dealing with the fringes of it. What is the formula you use?

Let's go back to fundamentals for the record. What is the formula you use for arriving at the amount of subsidy you pay x carriers? Then we are going to have our friend, Mr. Hord, tell us how much checking he does, et cetera.

Mr. BOYD. I think I would ask Mr. Roth if he would explain the formula to you and it may take the rest of the afternoon.

Mr. THOMAS. He will try to. I am not sure he will succeed.

Put it in the record right quick.

Mr. ROTH. Do you want to put that two-page statement in the record?

Mr. THOMAS. No, one sentence. You have a few magic words. Let's get them in the record right quick.

Mr. BOYD. Honest, efficient, economical management.

Mr. THOMAS. Did you ever figure out what that meant?

Mr. BOYD. We apply it every day.

Mr. THOMAS. What all does it cover? Here is a man who goes out and borrows some money and goes into operation. How much will you let him make? Go into the details of his operation. Then what does Mr. Hord do to see that it is carried out? We want to know how loose and how tight it is.

Mr. BOYD. Mr. Hord, will you explain the functions of your audit?

Mr. THOMAS. Tell us what is involved first before we get around to Brother Hord to do the auditing.

Mr. BOYD. What is involved is the break-even need of the carrier for the service provided over the route certificated by the Board, plus an element of return and taxes. On the return element there is a differentiated rate of return which does not allow for any profit on money that is borrowed. It is merely to pay—it is supposed to cover the amount of interest that is paid.

There is a profit element on the equity capital put in by the shareholders of the corporation.

Mr. THOMAS. Did you used to let him make 8 or 10 percent on the money he borrowed? If he borrowed at 3 percent, you would let him charge 8 or 9 percent or 10.

Mr. BOYD. Not since I have been on the Board.

Mr. THOMAS. You were up to 10 at one time.

Mr. JONAS. You are up to 10 now.

Mr. BOYD. Not since I have been with the Board. That is not on borrowed money. I guarantee you and assure you that on the borrowed money of these airlines——

Mr. THOMAS. You knocked it down, then. Go ahead. What else?

Mr. BOYD. That is about the size of it.

Mr. THOMAS. What do you let him make, and on how much?

Mr. BOYD. On the differentiated rate of return, depending on the amount of equity involved, the carrier can earn from 9 to 12¾ percent.

Mr. THOMAS. How do you figure out what he is entitled to make? What is your basis or your yardstick?

Mr. BOYD. It depends on the ratio of debt to equity, Mr. Chairman.

Mr. THOMAS. Suppose he takes in through his operations, and he has got one source of income, the cash he collects for hauling his passengers, in round figures, say he takes in a million dollars and in order to take in that million it costs him $1,200,000.

Mr. BOYD. Well, then, we check to see what we are going to disallow first. We have a long list of disallowances. I believe I provided it for the record last year. I can provide another copy this year. It hasn't gotten any shorter.

Mr. THOMAS. Haven't you refreshed your memory on that last year's record? Go ahead.

Mr. BOYD. We make adjustments for the expenses that he had. It may well be that he has spent $1,200,000, but we just won't acknowledge, say, $150,000 of those for subsidy purposes, so he is short $50,000.

Mr. THOMAS. Briefly, what items do you let him put in there for subsidy purposes? He goes out and rents a warehouse, a ticket operation, his salaries and maintenance, gasoline, oil, et cetera. Do you let him put in a couple or three jobs for some of his friends that maybe he doesn't need?

Mr. BOYD. Well, I just don't know. We don't try to tell him how many jobs he can have.

Mr. THOMAS. The number of jobs he has is a big factor in how much you pay him in the way of subsidy, is it not?

Mr. BOYD. No, sir.

Mr. THOMAS. Explain why it isn't.

Mr. BOYD. Because we pay him on his total costs less the total disallowances that we make.

Mr. THOMAS. In making up his total cost, the number of jobs he has in producing that business is a fair factor, is it not? It is a factor that you allow. You have to.

Mr. JONAS. Mr. Chairman, didn't we have a case in here a few years ago where they had more employees in the terminal than they had passengers?

Mr. BOYD. That was a statement that I made, Mr. Jonas, and I was dead wrong. I subsequently corrected the record.

Mr. THOMAS. We looked up one pretty close to it. It was considerably out of line. That was not the example you gave. It was an example developed on examination.

Mr. GURNEY. Williamsport, Pa.

Mr. BOYD. That is the one I gave where I was wrong.

Mr. THOMAS. You owe so much for the airplane. He has a legitimate expense according to your books, and your audits. You approve it. It is costing him $1,200,000 to take in a million dollars. How much subsidy do you pay him?

Mr. BOYD. There is no way I can answer that, sir. It has to be based on an audit and on disallowances that are made, but we do not, and do not understand that we are in a position to say to a carrier, "You may not have a stewardess on an airplane because you don't need a stewardess." We do not think the law permits us to say that "You should have only one ticket man at the counter," when the carrier thinks he needs two.

CAPITAL TO DEBT RATIO

Mr. JONAS. Right there, does the law give you any right to tell him how much capital he should have, his ratio to debt?

Mr. BOYD. No, sir.

Mr. JONAS. I would like to see a list of those ratios with respect to the subsidized carriers, if it is easily available?

Mr. BOYD. We can make that available.

(The information supplied follows:)

Local service carriers: Debt-equity ratio—By carrier, as at Dec. 31, 1960, and Sept. 3 1963

	As at Dec. 31, 1960		As at Sept. 30, 1963	
	Debt	Equity	Debt	Equity
Allegheny	85.44	14.56	69.38	30.62
Bonanza	68.29	31.71	55.04	44.96
Central	17.80	82.20	48.08	51.92
Frontier	58.98	41.02	54.71	45.29
Lake Central	79.84	20.16	44.90	55.10
Mohawk	90.11	9.89	55.10	44.90
North Central	96.13	3.87	67.43	32.57
Ozark	65.88	34.12	75.89	24.11
Pacific	74.90	25.10	60.86	39.14
Piedmont	64.02	35.98	63.80	36.20
Southern	44.46	55.54	62.06	37.94
Trans-Texas	42.13	57.87	48.70	51.30
West Coast	67.44	32.56	56.92	43.08
13 carriers	74.21	25.79	61.20	38.80

Source: Form 41 reports, adjusted in accord with the profit-sharing provisions of the class rate.

Mr. JONAS. I understand some of these carriers are undercapitalized?

Mr. BOYD. I think they are. One of the reasons we have this sliding scale differentiated rate of return was in the hope that this would encourage them to bring more equity into their businesses. At the time we started that differentiated rate of return the ratios were about between 75 and 80 to 20 or 25 and now it is somewhat better.

Mr. BOYD. It is now about 60 to 40. It is improving.

INVESTMENTS BY SUBSIDIZED CARRIERS IN RELATED ACTIVITIES

Mr. JONAS. If the chairman will permit me to follow that one step further, isn't it true that some of the subsidized carriers are making investments in related activities?

Mr. BOYD. Yes, sir.

Mr. JONAS. Do you have any authority to control that?

Mr. BOYD. Yes, sir. I think we do. We have taken the position, however, that we would not accept any losses from any outside activities, but that we would utilize any revenues from outside activities going against, as an offset against the total subsidy requirement.

Mr. JONAS. That is the point I was coming to. Do you do that?

Mr. BOYD. Yes, sir.

Mr. JONAS. Is that definite?

Mr. BOYD. Absolutely. No question.

Mr. JONAS. If X airline invests a half million dollars in an outside activity, unrelated to airline service and makes a profit, you would require that it be considered?

Mr. BOYD. Yes, sir.

Mr. JONAS. What if they do it through a wholly owned subsidiary?

Mr. BOYD. The same thing.

Mr. JONAS. But a separate corporation?

Mr. BOYD. Yes, sir. It is my understanding that we do it exactly the same.

Mr. JONAS. Have you got your statistical people here that can, if you are not sure, can they verify that?

Mr. BOYD. I am sure.

Mr. THOMAS. What would you call an outside activity?

Mr. JONAS. Buying a hotel for example.

Mr. BOYD. Allegheny Airlines, for example, has an interest in a car rental business and any revenues that come to Allegheny from that car rental business are utilized.

Mr. THOMAS. Is it an adjunct to their airplane business?

Mr. BOYD. I think they would claim that it is because they rent cars. I do not know anything, really, about their business, but my understanding is that they have them at terminals which they serve by airplane, on the theory that they have more or less a captive class of customers so they can move them out of the plane into the cars and back from the cars into the plane.

Mr. EVINS. Very handy.

Mr. THOMAS. You mean right there on the ground?

Mr. BOYD. Yes, sir.

PROFITS FROM UNRELATED ACTIVITIES

Mr. JONAS. That would be pretty closely tied into the operation. What if it is an entirely unrelated activity?

Mr. BOYD. My understanding, and I would like to ask, Mr. Hord, any operation performed by a carrier, either directly or through a wholly owned subsidiary would have its revenues thrown into the total requirement. Am I right on that?

Mr. HORD. We would segregate every unrelated activity, whether or not it is a separately incorporated enterprise——

Mr. THOMAS. If you get in a Hertz car and you ride 200 miles and go back to the airport 3 or 4 days later, what does that have to do with the operation of that airline?

Mr. HORD. We would segregate completely the airline operation from other activities and we would assume that any other activities should stand on its own feet. We would also allocate costs to that

other activity in proportion to what seemed to us to be the burden to the carrier.

Mr. THOMAS. Did I understand the chairman to say that you do not look into the necessity of items of expense submitted to you in arriving at subsidy?

Mr. BOYD. The items of expense submitted to us——

Mr. THOMAS. In arriving at the subsidy requested?

Mr. HORD. Mr. Chairman, could I make one little statement?

Mr. BOYD. Yes, sir.

SUBSIDY DETERMINATION

Mr. HORD. The subsidy is paid in part in terms of seat-miles operated, and so far as that unit of it is concerned it is determined by the number of seat-miles operated. Then there is in this class rate setup a profit-sharing provision and the extent to which profits are recouped by the Government depends entirely——

Mr. THOMAS. You are going back to your class rates.

Mr. HORD. That is the subsidy.

Mr. THOMAS. How do you arrive at a total? Here are so many seats. In arriving at your revenue per seat you are going to have to figure gasoline, oil, help, rent, and everything else in it. You haven't answered the question yet.

Mr. BOYD. We do that on the average industry cost for providing the service, which comes from the audits made by Mr. Hord. That is the way we arrive at it.

Mr. THOMAS. How can you come to a fair conclusion or an honest, accurate, and economical formula in arriving at a class rate unless you go into the elements? If he is charged with 99 people and he only needs 90 and it is obvious to you your class rate is out of line.

Mr. BOYD. We get back to the same old thing, sir, that we think you are talking now about management prerogative, and that you are talking about——

Mr. THOMAS. Certainly you have more authority than to just write out a check. After this fellow gets his certificate, your authority does not end with writing out a check by any means, does it?

Mr. BOYD. No, sir.

Mr. THOMAS. It is not mandatory that you write it out until you satisfy your formula on his economy and efficiency. You do not do it until that has been satisfied.

Mr. BOYD. Let's look at it this way: The break-even load factor for the local service carriers is about 61 percent. The carriers are operating an actual load factor of about 43 percent. There is such a spread in there, Mr. Chairman, that even—well, I do not know where I was headed.

Mr. THOMAS. Take your time.

Mr. BOYD. We know what it costs to buy gasoline, we know what it costs them for their equipment, what it costs them for their salaries. This is completely out of our control. From what they say, it seems to be out of their control. But right there with the aircraft, gas, oil, flight crews, you have the vast bulk of the costs of providing airline service.

Mr. THOMAS. I think you are exactly correct. However, suppose he goes to Podunk and pays $10,000 to a friend for a warehouse that

you do not think he needs. This is in his base. You do not have to accept that.

Mr. BOYD. We have a provision in the class rate for disallowances which we worked out on a percentage basis based on past experiences of disallowances. I would be the last one to tell you there is no possibility of an airline operator giving us the business if that is what he sets his mind to do. But the fact remains that, so far as I know, these are all honest and conscientious people. They try to get the best of everything, but I have no reason to think that they have ever been dishonest. They know we have a good audit staff.

Mr. THOMAS. Judge, we are not going to dispute anything you said but you are going to make me cry. I remember several of these big corporations were just as honest and capable and went to church every Sunday, but they all went into a conspiracy and agreed to hold the price up against Uncle Sam. Finally they all pled guilty. They were just fine and not going to take advantage of anybody. You will remember a few of those cases. Your people are just as fine and all of that.

Mr. BOYD. We do audit these people. If anything is out of line, we are advised of it by Mr. Hord.

ITEMS DISALLOWED FOR SUBSIDY PURPOSES

Mr. EVINS. Mr. Hord, what do you find out of line, if anything? What do you find that you have to put a red pencil around?

Mr. HORD. Anything that has been expended that in our judgment is questionable, we put a red pencil around it. We have had cases, for example, where family cars have been used at company expense. We take it out.

Mr. OSTERTAG. What do you do about it?

Mr. HORD. We disallow it. There are hundreds of thousands of dollars disallowed.

Mr. JONAS. Give us some more examples.

Mr. EVINS. Mr. Jonas says uncover some more.

Mr. HORD. We have uncovered items aggregating over $1 million in 1963. One device to reduce profits is to get expenses in one period that belong in the next period. We put the expenses in the period in which they belong, which is one of the common bases of juggling profit as between two periods. Anything that is unrelated, you take expenditures in organizations or clubs, lobbying costs, things of that kind.

Mr. EVINS. That is what the chairman was speaking of, unrelated items.

Mr. HORD. They are disallowed, they are deleted.

REASSESSING ECONOMIC NEEDS OF LOCAL SERVICE CARRIERS

Mr. EVINS. This interests me. You say that the Board is reassessing the economic needs of 13 local service carriers for the purpose of establishing a new class subsidy rate for 1964. Fiscal year 1964 is well underway and about gone. What are you doing in this reappraisal and reassessing of economic needs?

Mr. BOYD. We are trying to tighten up on the formula, Mr. Evins, to boost their load factor requirement and to get the formula in line

with regard to the different types of equipment used so that there is no excessive benefit from utilizing bigger equipment.

Mr. EVINS. Does your experience thus far show there is a need for setting a different subsidy rate?

Mr. BOYD. Yes, sir. As you can imagine, with 13 local service carriers effectively blanketing the United States—North, South, East, and West—they have some extremely different characteristics. Trying to get a single factor formula or a single formula that will cover all of them equally and fairly has proved to be most difficult.

What we found in the first two rates is that some carriers, by just the action of the formula, would fall into the excess profits category and others were living on thin soup and not getting all they should be getting. We keep trying to readjust these things to get an even application of the formula to all carriers.

Mr. EVINS. Very well said.

Mr. JONAS. Will you yield to me?

Mr. EVINS. Surely.

FIVE-YEAR GOAL FOR REDUCTION OF SUBSIDY

Mr. JONAS. You told the President last year you thought you would get these subsidies down by about $55 million in 5 years.

Mr. BOYD. Yes, sir.

Mr. JONAS. Do you think you are on schedule?

Mr. BOYD. No, sir.

Mr. JONAS. That is a good, sharp, clear, quick answer. I was afraid of that.

Mr. OSTERTAG. To follow the question one step further, you believed it then, did you, at the time that this statement was made or the release was made about these reductions?

Mr. BOYD. Sure, that was an absolutely sincere belief, Mr. Ostertag. But there have been several things that have militated against it, one of which is after that study was published, along came Northeast Airlines with a requirement for $3¾ million, which was certainly not contemplated.

As you can also imagine, that study had to be based on a static route system because we could not project what changes would be made in the route alinements in the future. There have been some changes since then of cases that were finished that the study did not take into effect, which have added some money.

We had hoped that we would have this new class rate 3 out and operating by the first of January. It is not. We have not, either we or the carriers have not been able to come to grips with it yet. We have made a proposal, and the carriers have not come back to tells us what it is going to do to them. A good portion of what was involved in that reduction was based on increased productivity and efficiency of the carriers and traffic growth without consequent expense.

Mr. OSTERTAG. Let us take it from the start, which is a reduction over a period of 5 years from $81 million to about $56 million, which is $25 million.

Mr. BOYD. Yes, sir.

Mr. OSTERTAG. Now you have cited one or possibly two circumstances which make that impossible to achieve. What do you antici-

pate you can and will achieve? You said no to Mr. Jonas' inquiry that you are not going to meet this, but what are you going to meet? Is this just a false alarm sort of thing?

Mr. BOYD. I do not think so at all. I think you will see this general type of reduction coming about as time goes on.

Mr. OSTERTAG. This was a 5-year goal, if I understand it correctly.

Mr. BOYD. That is right.

Mr. OSTERTAG. Accepting your premise that you will not achieve your goal, within that period——

Mr. BOYD. I say we are not on schedule.

Mr. OSTERTAG. That is what I say. What will you achieve at the end of 5 years as things stand?

Mr. BOYD. I do not know.

DELAY IN REACHING EXPECTED SUBSIDY LEVEL

Mr. OSTERTAG. Let me ask it in another way. When will you reach this $56 million level of subsidy? If you do not reach it in the fifth year, do you anticipate you will ever reach it?

Mr. BOYD. Certainly we hope so.

Mr. OSTERTAG. What does it look like?

Mr. BOYD. Any figure I give you will be just a guess. I would say that given the conditions that we had in the study, what we talked about in terms of 5 years will more likely be seven and a half years.

Mr. OSTERTAG. This, of course, is based on your own studies and findings?

Mr. BOYD. That is right, sir.

Mr. OSTERTAG. That is why it is difficult to find so many flies in the ointment at this point.

Mr. BOYD. You see, the things that we think we can do we are moving on. We are requiring the two round trips a day in the class rate 3. We are moving on the regional airport front as fast as we can, which is a snail's pace because this is a public notice and hearing procedure.

The bulk of that, however, we based on the traffic growth without consequent expense growth and this is something that the carriers, it is up to the carriers as much as it is up to us.

The traffic growth has surpassed what we projected. So from that point of view, that part is moving along. The reginal airport thing is moving along. The minimum and maximum frequencies, which is intrinsic to this, is moving along. But it is not going to be done within 5 years, in my judgment. It is going to take longer to accomplish it.

Mr. EVINS. If new or additional companies are organized and new territories are to be served, new frontiers are to be covered, you may have to inaugurate new programs.

Mr. BOYD. That is right, sir. That is one thing this study makes clear, and I want to make clear on the record, which is, that that was based on the route system as of the time the study was made.

Mr. EVINS. I was noticing the Frontier carrier. Where is their base?

Mr. BOYD. Denver.

Mr. EVINS. They are the highest paid, highest subsidized carrier of all your 13 carriers, $8,282,000 a year.

Mr. Boyd. They operate across the northern tier of States of the Midwestern States—Montana, North Dakota, Wyoming. They were put in there originally, I think—this is before my time—I believe the military had a great deal to do with their being put in to service the SAC bases up in that area.

SUBSIDY STATISTICS

Mr. Thomas. We would like to have some information on your 13 subsidized carriers and you might include the Hawaiian and Alaskan carriers, too. Your table set out from 1954 through 1965, shows the amount of subsidy paid and accrued. Can you show how much traffic, dollar traffic, originated to earn this subsidy? For instance, take Frontier. For 1965 you estimate $8,261,000. We are using this is an example only. How much was the revenue and the difference between the cash revenues and your allowances of his expense account—that is this subsidy?

Mr. Boyd. Yes, sir.

Mr. Roth. Plus profit and taxes.

Mr. Boyd. I do not have a breakdown on the revenues of the carriers. I can provide that for you.

Mr. Thomas. Will you complete this table on his revenues, his profits, his taxes, and his subsidy? You are going to add two more items, three more items.

Mr. Boyd. Revenues, profits, and taxes. Do you want this back to 1954?

Mr. Thomas. The last 5 years should be satisfactory.

Mr. Boyd. That is for Frontier or all of the 13?

Mr. Thomas. All of the 13.

Mr. Boyd. All right, sir.

(The information supplied follows:)

Local service carriers: Operating results—By carrier, fiscal years 1959 through 1963

[In thousands of dollars]

Carrier (fiscal year ended June 30)	Revenues	Expenses	Breakeven need	Subsidy	Income taxes	Net income after taxes [1]
Allegheny:						
1959	6,827	9,999	3,172	3,228	----------	56
1960	8,753	13,103	4,350	4,483	----------	133
1961	12,782	18,677	5,895	6,043	----------	148
1962	15,508	20,572	5,064	6,449	340	1,045
1963	18,103	22,974	4,871	6,368	568	929
Bonanza:						
1959	3,333	5,288	1,955	2,072	3	114
1960	4,589	7,196	2,607	2,893	----------	286
1961	5,455	7,817	2,362	3,326	514	450
1962	6,773	8,607	1,834	3,281	565	882
1963	8,790	10,125	1,335	3,252	871	1,046
Central:						
1959	2,416	5,136	2,720	2,731	1	10
1960	2,585	5,616	3,031	3,070	----------	39
1961	3,220	6,283	3,063	[2] 3,375	----------	312
1962	5,302	9,137	3,835	[2] 4,347	130	382
1963	5,996	10,356	4,360	4,588	153	75
Frontier:						
1959	4,846	8,741	3,895	3,937	----------	42
1960	6,875	13,601	6,726	6,903	----------	177
1961	7,853	13,337	5,484	6,003	202	317
1962	8,086	14,493	6,407	7,028	140	481
1963	9,964	16,257	6,293	7,817	652	872

Local service carriers: Operating results—By carrier fiscal years 1959 through 1963—Continued

[In thousands of dollars]

Carrier (fiscal year ended June 30)	Revenues	Expenses	Breakeven need	Subsidy	Income taxes	Net income after taxes [1]
Lake Central:						
1959	2,549	4,050	1,501	1,532		31
1960	2,992	4,724	1,732	1,690	1	−43
1961	4,224	6,711	2,487	2,704		217
1962	6,380	10,487	4,107	4,191		84
1963	6,895	10,760	3,865	4,046		181
Mohawk:						
1959	8,045	9,651	1,606	1,979	−9	382
1960	8,960	11,480	2,520	[2] 2,388		−132
1961	12,093	15,220	3,127	[2] 4,043	75	841
1962	16,681	20,541	3,860	4,542	−75	757
1963	20,396	23,822	3,426	4,742	358	958
North Central:						
1959	10,730	15,030	4,300	4,267	54	−87
1960	13,464	20,368	6,904	6,978		74
1961	15,545	22,963	7,418	7,637		219
1962	17,782	24,727	6,945	8,162	459	758
1963	19,191	26,353	7,162	8,502	504	836
Ozark:						
1959	6,506	9,040	2,534	2,577		43
1960	7,757	11,735	3,978	4,094		116
1961	8,974	12,293	3,319	3,837	84	434
1962	9,429	13,175	3,746	4,475	358	371
1963	11,548	15,715	4,167	4,774	218	389
Pacific:						
1959	5,768	7,830	2,062	2,317	84	171
1960	7,329	10,875	3,546	3,678	−425	557
1961	7,219	10,600	3,381	3,544	178	−15
1962	8,162	10,440	2,278	3,983	290	1,415
1963	7,280	11,615	4,335	4,017	158	−476
Piedmont:						
1959	7,661	10,363	2,702	3,028	−239	565
1960	7,920	12,008	4,088	4,154	−263	329
1961	8,593	12,048	3,455	4,265	514	296
1962	10,243	13,511	3,268	4,681	676	737
1963	15,709	19,585	3,876	5,242	428	938
Southern:						
1959	3,484	5,478	1,994	2,342	205	143
1960	3,770	6,868	3,098	[2] 3,259	−321	482
1961	5,027	8,751	3,724	[2] 4,014	165	125
1962	7,181	11,207	4,026	4,796	355	415
1963	9,458	14,485	5,027	5,899	353	519
Trans-Texas:						
1959	4,493	6,842	2,349	2,940	271	320
1960	5,487	8,375	2,888	2,917	−17	46
1961	5,927	9,095	3,168	3,311	84	59
1962	6,490	10,697	4,207	4,544	138	199
1963	7,499	11,863	4,364	4,731	107	260
West Coast:						
1959	3,670	6,911	3,241	3,501	281	−21
1960	5,991	10,954	4,963	5,301		338
1961	6,991	10,814	3,823	5,318	723	772
1962	7,205	11,199	3,994	5,246	641	611
1963	6,989	11,292	4,303	5,214	594	317

[1] Net income after taxes is before interest and other nonoperating items.
[2] The following carriers' rates are open for the periods indicated. The subsidy includes estimates of final subsidy during the open periods; Central, Mar. 13 to Sept. 30, 1961; Mohawk, Mar. 18 to Dec. 31, 1960; Southern, July 1, 1959 to Dec. 31, 1960.

Source: Form 41 reports.

EASTERN AIRLINES APPLICATION FOR SUBSIDY

Mr. THOMAS. Eastern has an application pending for subsidy. You have not taken any action on it, have you?

Mr. BOYD. No, sir.

Mr. THOMAS. Are they not beginning to make some money now?

Mr. BOYD. No, sir.

Mr. THOMAS. Are there any further questions by anybody? We thank you gentlemen for being so nice and cooperative. You really do a fine job. We like to do business with you.

WEDNESDAY, FEBRUARY 19, 1964.

FEDERAL POWER COMMISSION

WITNESSES

JOSEPH C. SWIDLER, CHAIRMAN
HAROLD C. WOODWARD, VICE CHAIRMAN
LAWRENCE J. O'CONNOR, JR., COMMISSIONER
CHARLES R. ROSS, COMMISSIONER
DAVID S. BLACK, COMMISSIONER
HARRY J. TRAINOR, EXECUTIVE DIRECTOR
S. DAVID FREEMAN, ASSISTANT TO THE CHAIRMAN
RICHARD A. SOLOMON, GENERAL COUNSEL
F. STEWART BROWN, CHIEF, BUREAU OF POWER
FRANK F. WATTERS, CHIEF, BUREAU OF NATURAL GAS
HASKELL P. WALD, CHIEF ECONOMIST
MILTON A. PILCHER, DIRECTOR OF ADMINISTRATION
WESLEY CAPAR, CHIEF, DIVISION OF PROGRAM, BUDGET AND FISCAL SERVICES

SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	8,642	9,847	10,912
	Positions other than permanent	136	88	40
	Other personnel compensation	126	75	38
	Total personnel compensation	8,904	10,010	10,990
12	Personnel benefits	639	713	835
21	Travel and transportation of persons	387	379	433
22	Transportation of things	41	20	20
23	Rent, communications, and utilities	174	212	381
24	Printing and reproduction	156	110	142
25	Other services	115	202	203
	Services of other agencies	32	25	36
26	Supplies and materials	133	145	160
31	Equipment	212	34	135
	Total cost	10,793	11,850	13,335
	Change in selected resources	208		
	Total obligations	11,001	11,850	13,335

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	1,178	1,148	1,234
Full-time equivalent of other positions	26	11	2
Average number of all employees	1,053	1,127	1,221
Employees in permanent positions, end of year	1,143	1,100	1,234
Employees in other positions, end of year	75	40	0
Average GS grade	8.9	9.1	9.1
Average GS salary	$8,275	$9,047	$8,970
Average salary of ungraded positions	$5,481	$5,845	$5,819

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Natural gas industry	5,752	6,466	6,983
2. Electric power industry	1,990	2,136	2,520
3. Non-Federal hydroelectric projects	1,750	1,885	2,257
4. Federal river development projects	506	462	617
5. Administration	795	901	958
Total program costs, funded	10,793	11,850	13,335
Change in selected resources [1]	208		
Total obligations	11,001	11,850	13,335
Financing: Unobligated balance lapsing	6		
New obligational authority	11,007	11,850	13,335
New obligational authority:			
Appropriation	11,080	11,850	13,335
Transferred to "Operating expenses, Public Buildings Service," General Services Administration (76 Stat. 728)	−73		
Appropriation (adjusted)	11,007	11,850	13,335

[1] Selected resources as of June 30 are as follows:

	1962	1963	1964	1965
Stores	27	42	42	42
Unpaid undelivered orders	72	265	265	265
Total selected resources	99	307	307	307

Mr. THOMAS. The committee will please come to order. We have with us this morning the distinguished gentlemen from the Federal Power Commission. It is always nice to have these gentlemen. They are certainly specialists and technicians in their own respective fields.

It is nice to have Mr. Swidler, the Chairman; Mr. Woodward, Vice Chairman; Mr. O'Connor, Mr. Ross, and Mr. Black, Commissioners; also Mr. Trainor, the executive director. Here is Mr. Freeman, assistant to the Chairman; Mr. Solomon, General Counsel; Mr. Brown, Chief of the Bureau of Power. He was with us last year. We have Mr. Watters, Chief of the Bureau of Natural Gas; Mr. Wald, Chief Economist. We have Mr. Pilcher, Director of Administration; and Mr. Capar, Chief of the Division of Program, Budget, and Fiscal Services. We are delighted to have you gentlemen.

All of the Commissioners are here this morning, a hundred percent attendance. We are grateful to all of you.

Mr. EVINS. Mr. Chairman, I have a press release from the Federal Power Commission announcing the appointment of Mr. Watters. It seems there have been a lot of new chiefs brought in, a lot of division heads. This is a biography which is very good. It seems Mr. Watters' predecessor was also from California. There might be some press releases on these other gentlemen.

Mr. THOMAS. We are delighted to have them. We might get these gentlemen to tell us something about themselves.

BACKGROUND OF COMMISSIONER BLACK

Commissioner Black, tell us about yourself. Where did you go to school, what have you been doing?

Mr. BLACK. I went to school at the University of Washington for most of my training, then 1 year of law school at Stanford. I graduated from law school in 1954. I practiced law in Seattle for about 3 years in private practice. I became assistant attorney general and counsel for the Washington Public Service Commission for about 4 years. Then I was appointed to be General Counsel of the Bureau of Public Roads and served there for 2½ years.

Mr. THOMAS. How long were you with the Bureau of Public Roads?

Mr. BLACK. Two and a half years.

Mr. THOMAS. When did you start there?

Mr. BLACK. April 6, 1961.

Mr. THOMAS. You were over there at a very interesting time, spending a lot of money.

Mr. BLACK. We spent as much as we could get away with. The Federal-aid highway program accounts for about $4 billion a year. The Federal Power Commission does not spend that much.

Mr. THOMAS. How do you like it at the Federal Power Commission?

Mr. BLACK. Very exciting and fascinating and challenging.

Mr. THOMAS. How old are you now?

Mr. BLACK. I am 35.

Mr. THOMAS. That is remarkable. You have traveled a long way in 35 short years. When did you get out of college?

Mr. BLACK. In 1954.

Mr. THOMAS. Did you have any military service?

Mr. BLACK. I fought the battle of Camp Hanford. I did not get out of the State of Washington. My military career was not very exciting.

Mr. THOMAS. You must have had peacetime duty because of your age.

Mr. BLACK. This was at the time of the Korean war, but I was in an antiaircraft battalion.

Mr. THOMAS. This is a very commendable record. I am sure you will go far. You have many good years ahead of you.

What about Brother Watters, Chief of the Bureau of Gas? Tell us about yourself, Mr. Watters.

Mr. WATTERS. Sir, I came into the Federal Power Commission in October of 1963. I had been with the California Public Utilities Commission for 23 years previous thereto. My prior experience to that was 3 years with a major oil company, 2 years in exploration work in Egypt, and prior to that 2 years with Tennessee Valley Authority. I am a graduate of the University of California, class of 1935, in civil engineering.

Mr. THOMAS. What about our Chief Economist, Mr. Wald?

Mr. WALD. I did my undergraduate work at Clark University, Worcester, Mass., and graduate work at Harvard. I have been with the Federal Government, more or less, since 1938.

Mr. THOMAS. When did you get out of school?

Mr. WALD. In 1938 from undergraduate school. I took time off to go back to graduate school on two occasions. I have been with various Government agencies starting with the Federal Reserve.

Mr. THOMAS. You are a good, outstanding example of a Federal employee, a good career man. We need more like you. What degree did you take in Harvard?

Mr. WALD. A Ph. D. from Harvard.

Mr. THOMAS. In economics?

Mr. WALD. Yes, sir.

Mr. THOMAS. Well, Doctor, welcome aboard. Any group is entitled to at least one doctor. I guess that is the only doctor we have present. Mr. Capar?

Mr. CAPAR. I was born and raised in Jeannette, Pa., and came to work for the Signal Corps back in 1942 in budget work and comptroller-type activities. After I had gone to business school back home, near my home, in Greensburg, Pa., I went into the service in 1944 and spent several years with the infantry. I came back and went to school and got my degree at Georgetown University in 1959. I worked with the military for about 18 years in budget activities and went to the Federal Aviation Agency in 1959.

Mr. THOMAS. How long have you been in Government service?

Mr. CAPAR. Since 1942, sir.

Mr. THOMAS. You have not lived long enough to have had much experience outside of Government.

Mr. CAPAR. No, sir. I worked at night at other places while going to business school.

Mr. THOMAS. That is a fine record.

Mr. CAPAR. I joined the Federal Power Commission in May of 1963 from the Federal Aviation Agency.

Mr. THOMAS. We are delighted and honored to have all of you. Mr. Chairman, do you or any of your brother Commissioners have any statements to make? We will be glad to listen to you talk. Tell us something about your headaches and pleasant activities and unpleasant ones. Talk about anything you want to.

GENERAL STATEMENT

Mr. SWIDLER. Thank you, Mr. Chairman. I have a prepared statement which I should like to offer for the record.

Mr. THOMAS. Very well. Without objection, it will be placed in the record.

(The statement follows:)

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you today to report on the activities of the Federal Power Commission in the past year and to support our appropriations request for fiscal 1965.

The President in his budget message to the Congress requested a total appropriation of $13,335,000 for the Federal Power Commission during the coming year. The request is an increase of $1,485,000 over the $11,850,000 appropriated for fiscal 1964. It will provide funds for a total of 1,234 positions in fiscal 1965, an increase of 86 over the 1,148 maximum positions in 1964. A summary is attached.

The Commission's appropriation request has met the President's test of thrift and frugality. The Commission scrutinized each activity with emphasis on maximum utilization of existing manpower. The request is limited to essential activities that have a significant beneficial impact on the Nation's economy. It is the Commission's judgment that the request represents only the amount required to carry out our responsibilities for the regulation of the natural gas and electric power industries.

The major portion of the increase is for our electric power work, "to enable the Federal Power Commission to step up its examination of interstate wholesale electric rates" as the President stated in his budget message. The staff requested for natural gas work is only 664 positions, an increase of 26 positions over 1964 but a reduction of 13 from the 677 positions in natural gas which Congress made available to the Commission in 1963.

The Commission's appropriation for 1964 of $11,850,000 which became available in December required us to reduce the level of our staff. As of February 15, 1964, there were only 1,069 permanent FPC employees actually on the payroll. It has also been necessary to defer certain important work such as data processing for area rate proceedings and printing current opinions. We are now operating with far fewer people than we need.

The increase of $1,485,000 requested for 1965 is made up of $219,000 to provide a full year's salary for 48 positions filled in the first half of 1964 but unfilled in the second half due to force reduction; $373,000 to cover the pay raise effective in January 1964 and in-grade promotions for existing staff; $383,000 for increased cost of rent, supplies, etc.; and $510,000 for 86 new positions.

In reviewing our budget request and specifically our need for increased manpower, Mr. Chairman and members of the Appropriations Committee, I hope you will keep in mind that the Federal Power Commission regulates two of the largest and fastest growing industries in the Nation.

The consequences to the Nation's economy from inadequate staff for the Federal Power Commission are indeed grave as recent history amply demonstrates. Construction of natural gas pipelines will be delayed unless we have adequate staff to process certificate applications. Over a billion dollars in proposed natural gas pipeline projects is now pending before the Commission. Some of the applications are for overlapping projects not all of which can be granted, but even so the failure to provide funds for sufficient FPC staff will result in delays in processing projects which when approved will pour hundreds of millions of dollars into our economy. The same can be said about the licensing of hydroelectric power projects and indeed for all of our activities which affect the pace of progress in the Nation's two basic energy industries.

The damage to the natural gas and electric power industries from insufficient FPC staff will be compounded by the loss of protection to the gas and electric consumers, that is to say, practically the whole of our population. I believe the Commission's record in the past 2 years of ordering over a half billion dollars in refunds to the customers of the Nation's natural gas pipelines is in itself ample proof of the large dividends to the economy from small investments in FPC staff. The Commission through its National Power Survey is stimulating the construction of stronger transmission line interconnections and larger and more efficient generating units by the electric power companies to reduce electric power costs. Electric rates reversed their upward trend of a decade in 1962 and rate reductions are now the order of the day. I believe that the Commission as presently constituted has demonstrated that it can make effective use of the funds made available to it.

We have made good progress in increasing the productivity of our staff. We have streamlined our procedures for processing rate cases and certificate applications for both natural gas pipelines and sales by gas producers. As a result, we have made great strides toward clearing up the backlog of natural gas rate and certificates cases which existed 2 years ago and we are now handling new cases in an expeditious manner that will prevent another backlog from accumulating.

The Commission now has an active program for electric rate regulation which needs strengthening. The FPC has a responsibility to the thousands of cooperatives and municipalities as well as to consumers of private companies who purchase power at wholesale in interstate commerce to insure that they can obtain electricity at reasonable rates and on fair terms. The FPC, by the fulfillment of its responsibilities for the assurance of such supply, will make it unnecessary to build uneconomic sources of power and will instead provide consumers with low-cost electric power from economical sources. Effective Commission regulation can be a substitute for large investments in plants of relatively low efficiency which are justified only in the absence of effective wholesale rate regulation.

The Federal Power Commission's actions to speed up the regulatory process have benefited the economy in a number of important respects. In calendar year 1963, for example, the Commission issued certificates for $812 million of

new gas pipeline construction, the second highest total in history. The three largest applications, involving $195, $56, and $49 million, respectively, were each processed and approved in less than 6 months from the dates they were filed. Another example of the results of our accelerated efforts is the clearing up of a billion dollar backlog of natural gas rate increase applications by ordering refunds of some $550 million in the past 2 years, the major portion of which has been passed along to ultimate consumers in all parts of our country.

The Commission has also shown marked improvement in its activities which bring revenues into the Federal Treasury. In 1963 we collected over $2,800,000 from owners of downstream hydroelectric projects for the benefits they received from upstream Federal project, a sum which is five time the aggregate amount collected in the previous history of the Federal Power Act. We are also increasing the fees charged hydroelectric project licensees, other than those exempted by statute, to compensate the Government for all of the costs of administering part I of the act, except for certain old licenses covering less than 10 percent of the fees in which the Commission's authority to require additional fees is uncertain. We estimate total payments to the Treasury of about $5,800,000 in fiscal 1965. Our appropriations request should, therefore, be offset by these increased payments to the Federal Treasury by licensees and for headwater benefits. The net cost of the Commission's work to the U.S. Treasury in fiscal 1965 will be about $7,500,000, which is not much more than in earlier years when the Commission staff and productivity were both far smaller, and when salary scales and other expense levels were much lower.

Let me discuss now in more detail our record and our needs in both our natural gas and electric power work.

The Commission's major success in the past 2 years was to clear up the incredible backlog of pipeline rate cases. In so doing we have reversed the upward trend of natural gas prices which has plagued gas consumers and the industry in recent years. The billion-dollar backlog of pipeline rate increases is now down to a normal working inventory of about $100 million. Over $550 million have been ordered in refunds. The city-gate price of natural gas has been reduced by a net amount of over $95.7 million annually, a reduction which consumers receive every year.

Not only were pipeline rates reduced but the Commission has adhered to its interim price ceilings for new sales by gas producers and there have been downward adjustments in some areas in which the existing ceiling prices were out of line. The stabilizing of prices in the field, coupled with pipeline refunds and rate reductions, has renewed public confidence in natural gas as a low-cost fuel.

The benefits to natural gas consumers from the refunds and rate reductions we have ordered are obvious. The Commission's performance has also been of large benefit to the natural gas industry. For the first time in years most pipeline companies have a financial status that is not clouded by staggering contingent refund obligations. Pipeline securities can now be valued on a firm financial basis in the light of the industry growth as it continues to supply the ever-increasing demand for natural gas by both industrial and domestic consumers. The lower rates and the fact that rate levels have been stabilized are big factors in enabling the industry to meet the stiffening competition from other energy sources.

To my mind, the Commission's pipeline rate settlement program is a demonstration of the administrative process at its best. It is only an administrative agency such as the Federal Power Commission with a staff to participate in the settlements and assure that the consumer interest is protected, that can utilize the settlement procedure with full confidence that the results are in the public interest.

We are not asking for any increase in our staff for pipeline rate work because we believe that with our new procedures and emphasis on increased productivity we can keep current. To do so will require a maximum effort from the full number of positions now available for this activity. The existing moratoriums on rate increases which many pipelines agreed to as part of our settlement program will soon be expiring and manpower must be available to dispose of rate increase filings speedily if huge sums of money subject to refund are not to be again accumulated.

Actually the number of pipeline rate cases estimated for 1965 represents only a small measure of the workload of the staff requested for pipeline rate work. In a practical sense, there is "a rate case" currently pending against all major pipe-

line companies because it is necessary to scrutinize their earnings level each year to insure that their rates remain just and reasonable under changing circumstances. The tax bill which is moving swiftly toward the President's desk will provide reductions in the corporate tax rates of the natural gas pipelines. This reduction in expenses alone will require studies of each pipeline company to insure that any excess earnings are passed along to customers in the form of rate reductions.

Our staff studies of pipeline earnings under existing rates reveal that several companies may be earning in excess of a fair return. The staff is engaged in conferences with these companies, which hopefully will lead to voluntary rate reductions. One company has already filed a voluntary rate reduction of $1.5 million annually, effective January 1, 1964, and other settlement conferences are well along toward agreements. The staff work required in each such investigation is comparable to the effort required to prepare for a rate case .

We believe that settlements rather than formal hearings are the most expeditious and effective means of implementing the results of these investigations. Our estimate of a reduced number of rate cases in 1965 reflects our belief that many of our investigations will result in voluntary settlements rather than formal rate cases.

Let me turn now to a fuller discussion of our pipeline certificate work. The growth of the pipeline industry is entirely dependent upon prompt handling of certificate applications by the Federal Power Commission. I have already stated that in 1963, the Commission issued certificates for $812 million of new construction. These projects made natural gas available to many new communities and provided as well the additional facilities needed for the growing needs of existing pipeline customers.

The normal volume of certificate applications pending before the Commission represents a huge amount of proposed investment. As of January 1, 1964, certificate applications for $1.1 billion of pipeline construction were pending before the Commission. Not all of these projects will be approved—some are in conflict with each other and a few may prove to be lacking in merit—but it is very much in the public interest that all should be decided promptly; that the good be separated from the bad and permitted to go forward; and that the applicants for the projects which do not meet the public interest test be advised of this conclusion as soon as possible so that they and their consumers will no longer be burdened with the heavy standby costs of these projects, the financial commitments, the commitments for gas reserves, the legal, engineering, and witness fees, and so forth.

The Commission has taken several important steps toward insuring more speedy handling of pipeline certificate cases. We have adopted regulations similar to our new regulations in rate cases to require a pipeline, in formal proceedings, to file its full case-in-chief with its application so that the hearing can be set promptly and proceed with expedition.

As I previously mentioned noncontested cases are now handled swiftly and applications whether involving small amounts or hundreds of millions of dollars are scrutinized and, if found satisfactory, approved in a matter of months. Contested cases require a formal hearing, but these hearings are now conducted under procedures that minimize delay and insure a conclusion as soon as is consistent with affording due process to all parties.

One important aspect of the Commission's pipeline certificate work often overlooked, is its importance to gas consumers. Certification of an uneconomic project, or even an economic project which does not afford the cheapest means of bringing gas to market, can cost consumers many millions of dollars each year for the entire life of the project. The Commission in the past 2 years has emphasized economics as the determinative factor in choosing among competing applications by pipelines to serve the same market.

One way in which the Commission expects to speed the processing of pipeline certificate applications is by requiring that pipelines report annually their gas reserves. The Commission's staff will review and record the information reported, and maintain a current picture of each pipeline company's reserves. We thus expect to avoid the protracted trial in each certificate case of the question whether the pipeline's reserves are adequate. We shall also be in better position to insure that no pipeline's reserves will fall below a prudent level. The small increase in staff we are requesting for certificate work is needed primarily for the analysis of pipeline reserve data.

We have made significant progress in our producer certificate work. The backlog has been cut down by over 1,100 cases last year. A year ago 2,814 cases were pending. On January 1, 1964, the backlog was reduced to 1,687 producer certificate cases. In most of the remaining cases the issue is the initial rates at which the proposed sale will be certificated. Hearings are underway in which hundreds of the remaining certificate applications are being tried under new procedures and pursuant to Commission guidelines which eliminate the need for elaborate cost showings.

Noncontested producer certificate applications are now being disposed of in 6 to 7 weeks from the date they are filed. Our new procedures have completely eliminated the hearing before the examiner. The applications, after staff screening and notice to the public, are brought directly to the Commission for prompt approval.

Although on the whole they are the more difficult producer certificate cases which remain to be tried, we believe that we can continue our progress in becoming current in this work without any increase in staff. The number of positions for this activity is therefore projected to remain at the 1964 level.

Producer rate regulation is the activity for which we are requesting 13 additional positions so that we can push forward with our area rate proceedings to fix just and reasonable prices for natural gas in all of the producing areas throughout the country. In the area rate program the Commission has developed an efficient and workable administrative tool by which the rates for all the producers in an entire area are fixed in one hearing. Progress in implementing the area rate program is greatly hampered by the lack of sufficient FPC staff and the modest increase we are requesting is the minimum we need to move ahead with this program which involves rates totaling hundreds of millions of dollars annually.

The Commission's settlement program has enabled us to dispose of many cases while our area rate proceedings are getting underway. Between July 1, 1961, and January 1, 1964, we disposed of 920 producer rate cases and ordered producers to refund over $49.9 million. This is in addition to the $550 million of pipeline refunds. These settlements provide for moratoriums for future rate filings and thus build an additional element of stability into the natural gas pricing structure.

We are greatly encouraged by the opinion of the Supreme Court in the *Phillips* case handed down on May 20, 1963, in which the Court gave judicial approval for proceedings with our area rate program. The Court said:

"We recognize the unusual difficulties inherent in regulating the price of a commodity such as natural gas. We respect the Commission's considered judgment, backed by sound and persuasive reasoning, that the individual company cost-of-service method is not a feasible or suitable one for regulating the rates of independent producers. We share the Commission's hope that the area approach may prove to be the ultimate solution" (p. 16).

The hearing in the lead case involving the Permian Basin area, which lasted 23 months, was concluded in September 1963. The parties all filed their briefs in December, and the examiner is now preparing his initial decision which is expected in late spring. The case should be ripe for decision by the Commission by the end of the year.

The south Louisiana proceeding which has been delayed because of manpower limitations is now moving expeditiously as we perfect our procedures for trying the area rate cases. In south Louisiana, we eliminated the trial by stages which prolonged the Permian hearing. All parties were required to file their entire case in chief simultaneously in December 1963. The remaining steps in the case have also been put on an accelerated schedule. Rebuttal testimony is due on March 24, 1964, and the hearing for complete cross-examination of all testimony is due to commence on April 21, 1964. With the experience gained in Permian, I have every reason to believe that the hearing in the South Louisiana case will be completed within 1964, which would cut in half the hearing time as compared with the Permian Basin proceeding.

South Louisiana and Permian combined account for over 40 percent of the gas moving in interstate commerce, so you can see that we are indeed making progress.

The Commission, by order of November 27, 1963, initiated two additional area proceedings, one in the Hugoton-Anadarko area and the other in the Texas gulf coast area. Completion of these proceedings, coupled with those in the Permian Basin and south Louisiana, will result in the establishment of effective rate regulation for approximately 75 percent of the sales of natural gas made in interstate commerce. We have moved first in the areas of greatest production, and all four

of the key production areas are now covered by an area proceeding in some stage of progress.

The following table gives the basic facts on the four pending area rate proceedings:

Docket No.	Title	Number of rate dockets	Number of respondents	Estimated amounts subject to refund
AR61-1	Permian Basin area	[1] 360	399	[1] $68,700,000
AR61-2	South Louisiana area	392	233	97,000,000
AR64-1	Oklahoma-Kansas-Texas District No. 10 areas	848	719	65,000,000
AR64-2	Texas gulf coast area	615	701	72,400,000
	Total	2,215	2,052	303,100,000

[1] Decision in this proceeding should be a basis for expeditious disposition of 308 additional dockets involving approximately $60,000,000 more of amounts subject to refund. These are cases filed after the area proceeding was started and not consolidated into the proceeding.

Our ability to move forward with these area rate proceedings depends on obtaining the funds we are requesting for this activity in 1965. We must devote more manpower to this program so that several of these huge proceedings, each of which involves the rates of hundreds of producers, can proceed simultaneously. Producers in all areas, and the consumers they serve, are entitled to decisions on the just and reasonable rates for their gas.

The Commission has made progress in its electric power work in the past year. The most important of our activities have been the national power survey and the Commission's program for regulating rates of the sales of electricity at wholesale in interstate commerce.

The Commission's survey report is being prepared for publication in this fiscal year. We have worked with advisory committees from all segments of the industry in the survey and 21 advisory committee reports have already been completed. These reports have been made available to the public.

In the survey report we expect to describe how the new technology in generation and transmission can best meet estimated loads in the 1970's and to suggest paths of further study to insure that the industry makes the fullest use of the advantages of present-day technology as applied to fully coordinated power networks. The Commission's report will not pinpoint generating sites or detail the transmission grids of the future. We expect to suggest region by region the general mix and sizes of nuclear, hydro, and conventional steam capacity, the possibilities for EHV interties between regions, and the potential savings in higher load factory operation, reduced reserves, larger unit sizes, better plant efficiency, and reduced transportation costs; in total, some rough measure of all of the cost savings inherent in a fully integrated power supply system for this country. We hope also to suggest how much these savings could mean in terms of reduced rates to consumers. We hope in this way to stimulate definitive studies along the same lines by the industry itself.

One of the most important benefits which the national power survey has already achieved is that it has focused attention on the need for greater research and development in the electric power industry. The industry will be investing in the neighborhood of $140 billion in the next 20 years, yet it has been spending in recent years only about 1 percent of its revenues on research and development, and most of this research money is spent on nuclear reactor research.

The Commission has taken steps to stimulate a reappraisal by the industry of its research efforts. A select 11-member ad hoc research organizing committee, representing all segments of the electric industry, the manufacturers, and the research community, has been formed to study and make recommedations on the possible formation of a permanent industrywide organization to encourage and coordinate research and development activities. This committee which is headed by Erwin Will, president of Virginia Electric Power Co., is expected to announce its report next month. The Commission has high hopes for permanent research progress as a result of the work of this committee. Its report may well set in motion a greatly expanded research program by all segments of the electric power industry. Both the industry and its consumers stand to benefit.

Our studies in the national power survey to date indicate that if full advantage is taken of the new technology in the coming decades large savings can be

made in the cost of generating and transmitting electricity and that all power systems—both publicly and privately owned—can share in these savings. I believe the electric power industry can meet the challenge of bringing low-cost electricity to all of America and I trust the Commission's national power survey will lead the way.

A staff of 10 positions will be continued in 1965 to work with the industry to follow through on the survey's suggestions in shaping a system of power supply for this country which will minimize power costs. The survey is a major program in promoting closer coordination between power systems throughout the country and a followup program is essential if the potential benefits are to be realized promptly. The technology is changing so rapidly in this dynamic industry that the survey recommendations must be continuously reviewed to keep abreast of changing conditions. The working relations which have been established between the Commission and the industry and between the various segments of the industry should not be allowed to lapse. They are among the most valuable products of the survey. A small staff will pay great dividends by continuing this important job of providing the catalyst that is stimulating all segments of the industry to make the most of their opportunities.

A continuation of the national power survey's close analysis of growing power pools is necessary to support an expanded rate regulation activity. Effective regulation of the wholesale rates of power companies must be built on a thorough working knowledge of how power pools can best be operated in the public interest. Many of the survey benefits will not be realized by the smaller private, municipal, and cooperative systems without such a follow-through effort.

The Commission's program for wholesale electric rate regulation has advanced from its dormant state to an activity which holds promise to wholesale customers throughout the Nation. Additional staff for rate regulation is vital to insure that the cost reductions stimulated by the national power survey will be translated into rate reductions for the power consumers.

Vigorous action by the Commission over the past 2 years to exercise its responsibility for the regulation of wholesale electric rates has resulted in a rapid expansion in rate workload and operations. The Commission received 1,882 wholesale rate filings in the past fiscal year, a record number, and we are continuing our efforts to obtain compliance with the filing requirements of the Federal Power Act by writing the companies and where necessary by the issuance of show-cause orders.

For the first time in history, a list of the major public utilities subject to the Commission's jurisdiction has been published. The list is tentative, and the Commission will give a hearing to any company which thinks that it was listed erroneously. Most of these companies agree that they are subject to FPC jurisdiction. We are proceeding against those that disagree so that jurisdictional questions may be resolved in an orderly way.

A thoroughgoing review of all electric rate schedules presently on file is being made with a view toward eliminating excessive or discriminatory rates and unreasonable provisions in these rate schedules. This work is being delayed because of insufficient manpower but 21 formal rate cases have already been initiated by the Commission dealing with failures to file, restrictive provisions, dual rates, refusals to serve, and unlawful rate levels. These cases are now in various states of completion. Additional staff will help move them along at a faster pace.

We have revised our regulations to insure that staff work is kept to a minimum. The new regulations require electric utilities to support rate filings with cost information that will facilitate meaningful Commission review without the need for a detailed field investigation of the company's books in connection with the rate case.

A failure to provide adequate staff for the Commission could have a serious impact on the efficient operation of the electric power industry and on the consuming public. The United States has entered an era in which the cost of electric power can be substantially reduced through interconnected power pools covering many States. The lower cost power from these pools should be made available at reasonable rates to the many small utilities, public and private, whose operations are not large enough to enable them to generate their own power economically. The present staff for electric power rates must be increased to achieve this goal and to keep pace with the dynamic growth of interstate sales of electric power as the industry moves closer to a completely interstate operation.

We propose an increase of 25 positions for electric power rate regulation which results in a total of 223 in the electric power industry activity.

The Commission is proposing new ways to improve its oldest program—the licensing of hydroelectric projects. The licensing activity, as you know, is self-supporting under the terms of the Federal Power Act and as I have mentioned, the Commission has taken steps to assure that to the extent possible all of the cost of this work is recovered from licensees.

Applications for licenses and preliminary permits for non-Federal hydroelectric projects for new capacity pending before the Commission involve construction costs approximating $3.2 billion. The Commission must develop better tools to move these cases along so that these large projects can provide jobs and electricity, as well as the numerous other benefits of well-planned water resource development projects.

One of the handicaps which has plagued the Commission in its licensing program has been the lack of even skeleton surveys of the river basins concerned. In many river basins, demands for water supply, water quality control, recreation, and wildlife are competing with flood control, navigation, irrigation, and power. The Federal Power Commission needs up-to-date basinwide plans to discharge effectively its statutory responsibilities for insuring that its licensing activities will advance the development of the Nation's river basins on the most efficient and comprehensive basis.

To meet this need, the Commission has undertaken a program of basinwide appraisals of the water resources of river basins with the highest priority for hydroelectric licensing purposes, with due regard for the emerging problems of water supply, water pollution, and the enhancement of recreation. The Commission intends to use the studies made by other Federal agencies in this area to the maximum extent possible, adding whatever additional studies and inspections by the staff may be necessary for its own purposes.

Basinwide resources studies can provide the essential standards for determining the desirability of hydroelectric projects and the features that should be incorporated in their construction and operation for the best use of the water resources. With the benefit of these studies, the Commission can more effectively exercise its authority to condition licenses to further the public interest in optimum overall water resource development. The availablility of such studies will expedite the licensing of projects and encourage applicants to file for the projects set forth in the development plans.

Basinwide studies will also be very valuable to the Commission in considering proposals for recapture of licensed projects, for Federal development of certain projects, for withdrawals of land of the United States for power purposes, and for cooperative studies with other agencies concerning Federal projects.

The 86 license applications for proposed major hydroelectric projects currently pending before the Commission provide evidence of the Commission's immediate and urgent need for such plans. In addition, the owners of 285 existing unlicensed projects have either filed or reported to the Commission that they intend to file applications for license. These 285 projects will reduce by more than half the number of unlicensed projects in operation 2 years ago. The basin studies are also needed to appraise the many projects which will be subject to recapture beginning as early as 1968.

As a first step in the appraisal program, a brief planning status report will be prepared for each major river basin summarizing the past and current planning studies and the schedules of planning by other agencies. Approximately 25 basins with priorities for Commission purposes, on which early investigations are not contemplated by other agencies, will be selected for detailed appraisal studies. An estimated 2 to 3 years will be required to complete these studies. Five initial studies will be completed in 1964, additional appraisal studies will be scheduled for completion in 1965 and in 1966. The results of the appraisal studies will then be published, either as reports for single basins or for groups of related basins.

Another aspect of our licensing program warrants special attention. Licenses for projects of substantial size will expire beginning in 1968 and licenses for projects of major size will expire beginning in 1970. As licenses expire, the Government has the right under section 14 of the Federal Power Act to recapture the projects, upon 2 years' notice to the licensee. Licenses for two projects with total installed capacity of 82,000 kilowatts will expire in 1968 and licenses for 25 projects with total installed capacity totaling 429,520 kilowatts will expire in 1970.

Evaluation studies of the streams on which projects subject to early recapture are located must be initiated as soon as possible. Our basin survey program will fill this need. We will begin immediately evaluation studies of 10 streams with projects on which licenses will expire between 1968 and 1970, and expect to

complete studies of several of these streams in 1965. Studies must be completed well before the expiration of the license periods in order that the Commission may recommend to Congress whether the projects should be recaptured by the United States.

An additional task of large dimensions is the accounting necessary to determine the price at which the projects may be recaptured. Stated in general terms, the price on recapture must take into consideration the net investment less an amortization reserve based on excess earnings of the licensee plus severance damages. These determinations are yet to be made. Our manpower requests should be evaluated in light of this urgent additional workload that is now upon us.

We are requesting 18 additional people to speed action on license applications which, if approved, could pour billions of dollars of new construction into our economy. The additional staff will enable us to do a better as well as a faster job. Existing projects which are unlicensed need to be brought under license so that these projects can make the greatest possible contribution to the most comprehensive use of our water resources. Additional staff is needed to move this activity along. The recapture problem adds a new element to the workload for licensed projects which cannot be delayed. These 18 people will not represent additional cost to the Government because their salaries will be largely reimbursed by fees from the licensees.

We also believe it is essential to increase our efforts in the supervision and inspection of licensed projects and are requesting five additional people for this purpose. The Commission must assure itself that projects are constructed in accordance with approved plans and good engineering practices and that constructed projects are operated safely and efficiently. This is especially important with respect to old projects coming under license under our program for unlicensed projects. These inspections are directed toward assuring that the licensees have adequate operating and inspection procedures so that risk of accidents such as those which have occurred in the past year with great loss of life and property in the United States and foreign countries will be minimized.

We are requesting an increase of 23 positions to a total of 198 in the non-Federal hydroelectric projects activity. The increase is due primarily to our licensing work and the program of water resources appraisals and as I have mentioned it is largely reimbursable from fees by licensees.

The final activity I shall discuss is our work on Federal river development projects.

River basin planning activities of Federal agencies have been increasing since 1961 when the President accepted the planning goal of the Senate Select Committee on Water Resources that comprehensive water development plans be prepared for all major river basins of the United States. The Corps of Engineers has expanded its program of comprehensive river basin surveys and has established basin survey coordinating committees to aid in the conduct of these surveys. The Commission has designated representatives of each committee, 12 of which had been formed by the end of fiscal year 1963, and has major responsibilities for studies of the potential development of hydroelectric power in these basins.

Since additional funds were not available for this work in 1964, six positions were financed by reimbursement from the Corps of Engineers. Funds are requested in 1965 for 12 additional positions including the 6 currently financed by the Corps of Engineers.

Summary of 1965 budget

[Dollars in thousands]

	1964		Increase		1965	
	Positions	Amount	Positions	Amount	Positions	Amount
1. Natural gas industry	638	$6,466	26	$517	664	$6,983
2. Electric power industry	198	2,136	25	384	223	2,520
3. Non-Federal hydroelectric projects	175	1,885	23	372	198	2,257
4. Federal river development projects	45	462	12	155	57	617
5. Administration	92	901		57	92	958
Total	1,148	11,850	86	1,485	1,234	13,335

Summary table of increases (1965 over 1964)

Personnel compensation and benefits (86 new positions)	$510
Personnel compensation and benefits (to restore 48 positions not filled in 2d half of 1964)	219
Increase due to pay raise	273
Cost of within-grade promotions	100
Other cost increases such as travel, ADP rental, equipment, supplies, materials, and printing	383
Total increase 1965	1,485

	Positions		Dollar amount
NATURAL GAS INDUSTRY			
Certificates: Increase in natural gas reserve and deliverability requirements activity.	+13	Increased personnel compensation and benefits costs due to 26 new positions.	$158
Rate cases: Increase for independent producer rate proceedings.	+13	Other personnel service cost increases	265
		Increase in level of other costs	94
Total	+26	Total	517
ELECTRIC POWER INDUSTRY			
Regulation of rates:			
Increase in rate investigation	+14	Increased personnel compensation and benefits costs due to 25 new positions.	143
Increase in rate cases	+11	Other personnel service cost increases	140
Power system analysis:		Increase in level of other costs	101
Completion of national power survey	−14		
Increase in power requirements and supply activity.	+14	Total	384
Total	+25		
NON-FEDERAL HYDROELECTRIC PROJECTS			
Licensing:			
Increase for processing applications	+5	Increased personnel compensation and benefits costs due to 23 new positions.	137
Increase in water resources appraisals for hydroelectric licensing.	+9	Other personnel service cost increases	113
Preparatory work on recapture provisions.	+4	Increase in level of other costs	122
Supervision of licensed operations: Increase in construction projects requiring supervision.	+5	Total	372
Total	+23		
FEDERAL RIVER DEVELOPMENT PROJECTS			
Survey coordinating committee: Increase for cooperative work with the Corps of Engineers and other agencies.	+12	Increased personnel compensation and benefits costs due to 12 new positions.	72
		Other personnel service cost increases	39
Total	+12	Increase in level of other costs	44
		Total	155
ADMINISTRATION			
No increase in positions charged to this activity.		Other personnel service cost increases	35
		Increase in level of other costs	22
		Total	57
Grand total	+86	Grand total	+1,485

Mr. SWIDLER. I would like to hit the highlights of it. I have no connected statement.

Mr. THOMAS. By the time you get through this crowd will connect it for you.

RECENT INCREASES IN EMPLOYMENT

Mr. SWIDLER. This is the third opportunity for the new Kennedy-Johnson Commissioners to report to this committee and present to you an accounting for the results of our activities and to present you with our program for the ensuing fiscal year.

The fiscal 1965 appropriations request is for $13,335,000. That compares with an appropriation for 1964 of $11,850,000, or an increase of $1,485,000. This request would provide for 1,234 positions in 1965, which would be an increase of 86 over the 1,148 maximum positions of 1964.

Mr. THOMAS. We are sort of puzzled. You referred to the Kennedy-Johnson crowd. We cannot understand what you are doing that your predecessors did not do. You are operating under practically the same act. We remember Nelson Lee Smith. He was one of our favorite administrators, happened to be a Republican professor of economics from Dartmouth. He had around 700 or 725 employees throughout the Commission.

You and your colleagues have come in and the first rattle out of the box it was 968, in 1963 it was 1,178, in 1964 you wanted a lot more but you did not quite get them all. You got around 1,150. This year you want to jump up to 1,234. That is what puzzles us. We cannot see what the advantage to the taxpayers is. We did not think the country was going to ruin under your former colleagues on the Commission. We all thought they did a reasonably good job. The country seemed to get along about as well then as it does now. So how do you justify all this increase? We have seen a lot of empire builders, but we give you about the No. 1 spot.

Mr. SWIDLER. That is not really the kind of award I have been seeking.

Mr. THOMAS. We are sort of obliged to give it to you whether you seek it or not. We are just going by the record.

Mr. SWIDLER. Your question, of course, goes to the heart of our request. The reason for the additional people over earlier years is that we are doing more and doing it better. I think our record demonstrates that.

You said, Mr. Chairman, that the country got along and was not going to ruin before we got there. I am sure that is true. But in our field of activity there was a collapse of regulation. This may not have been the most profoundly significant situation in the whole Federal establishment, but we are not responsible for the whole Federal establishment.

In our area of activity we found little but backlogs.

Mr. THOMAS. You will find enough argument in your field without taking on other fields. In regard to where it fell flat on its nose, we have been here a long time, we are not as smart as you are, but we are not the dumbest folks in the world. Do you mean to tell us we did not know what we were doing here for 10 or 12 years before you came along and that you are the Messiah who is going to save the country and show us where we are all wrong? Your egotism is most astounding. This crowd has been here a pretty long time. You come in here saying it has just collapsed, that we did not know what we were doing. That is what you are saying in sum and substance.

Mr. SWIDLER. Mr. Chairman, when I was asked to take this position, it was in recognition——

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. EVINS. Mr. Chairman, the justification points out that the electrical power industry has grown, it is the largest industry in the United States. The gas industry has also grown enormously. It is a tremendously big and important industry.

With the growth of these two industries, the Congress has charged the Commission with regulating the industry. The Commission has a tremendous responsibility, and perhaps some of this growth is due to the fact that the industry has grown also. This is pointed out in the justifications.

REGULATORY FUNCTIONS IN RECENT YEARS

Mr. SWIDLER. I go beyond that. There was a collapse of regulation at the time we took over that was widely recognized throughout the United States. The Federal Power Commission was pointed out by many as the prime example of a breakdown of regulation. We were the objects of a study, a special study, made by the White House. You may remember that the Landis report commented that the Federal Power Commission had completely failed in its statutory missions.

I do not want to claim personal credit, Mr. Chairman. We are here defending an appropriation request; not to recognize the state in which this Commission found its work when we came in does not do justice to our request.

Mr. THOMAS. There was criticism of the Interstate Commerce Commission and most regulatory agencies. I do not know that he set yours out as perhaps the worst.

Mr. SWIDLER. It was called the worst, sir.

Mr. EVINS. The Federal Power Commission at that time was criticized for not doing its job effectively. As I recall, back in those days, they were given hard going. At the present time we commend the former Chairmen and former Commissioners for doing a good job, but as I recall at that time, they were given hard going because it was said they were not doing their job as they should. I recall that they were criticized severely for not doing a job.

Now, after they have gone, we give them accolades. At the time Commissioner Swidler came in as Chairman of this Commission, for the very first time there was introduced a new look and a new, fresh approach. I think he should be given a proper opportunity to carry out his enforcement authorities as he interprets his duties as Chairman of the Commission.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. SWIDLER. I would like to offer for the record an article from the September 21, 1963, issue of Business Week, which is not a journal especially favorable to regulation, and to read the first paragraph into the record for the information of the committee:

> When the Kennedy administration took office, the Federal Power Commission was Peck's bad boy among U.S. regulatory agencies. According to one observer, it was an "outstanding example of breakdown in the administrative process."

Mr. THOMAS. Whose statement is that?

Mr. SWIDLER. That is Business Week's article.

Mr. THOMAS. You are sort of building up a strawman. All the agencies were criticized. I do not remember yours as being any worse than some of the rest. You can get any publication, either side of the fence, and get about what you want if you look far enough. Go ahead and offer it for the record. I do not know the purpose of it.

(The article from Business Week follows:)

[From Business Week, Sept. 21, 1963]

EXTRA-HIGH-VOLTAGE AT THE FPC

Under Chairman Joseph C. Swidler, the agency, once nearly overwhelmed by caseload, has been revitalized, but some of its moves are creating uneasiness among both gas and electric men.

When the Kennedy administration took office, the Federal Power Commission was Peck's bad boy among U.S. regulatory agencies. According to one observer, it was an "outstanding example * * * of breakdown in the administrative process."

Today, all that has changed. The head of the American Gas Association, John E. Heyke, Jr., of Brooklyn Union Gas Co., lauds FPC for an "outstanding job in clearing up a terrific backlog of natural gas rate cases. I feel kindly toward FPC."

The architect of this new look is FPC Chairman Joseph C. Swidler (with fellow Commissioners, picture), 57-year-old former General Counsel for the Tennessee Valley Authority who likes to think of himself as a "Federal buff."

Bypassing formal rate proceedings, Swidler has been responsible for getting the pipelines together with their customers to negotiate one rate settlement after another. Funds collected by gas transmission companies subject to refund, pending FPC review of proposed rate increases, have dwindled from $1.1 billion in 1961 to about $440 million. Most of the present total is accounted for by El Paso Natural Gas Co., and a settlement could come at any moment.

But while the Swidler broom has swept clean, his tough aggressive brand of regulation and his persistent bids to expand FPC's jurisdiction are beginning to make utility men nervous in both the gas and electric industries:

This summer Swidler shook up the gas pipeliners by launching an FPC investigation of their 1962 earnings, with an eye toward cutting their rates. FPC has always had power to initiate such proceedings, but this is the first time that gas transmission companies have been the target. One industry economist calls the investigation a "new kind of McCarthyism. If you haven't come asking for a rate increase lately, this means you must be earning too much." So far, nine companies have been tagged, including Cities Service Gas Co., Colorado Interstate Gas Co., and Panhandle Eastern Pipe Line Co.

Swidler is bidding hard to broaden FPC's role in the electric industry. Traditionally, this role has been limited because less than 10 percent of power generated in the United States moves in interstate commerce. But with the development of extra-high-voltage transmission lines, this percentage is going up. For the first time, too, FPC is taking a close look at the rates charged for power already moving over State lines. Swidler inherited on interstate power rate staff of 4; he's shooting for 70 next year. What's more, Swidler recently issued a list of 189 companies over which he claims rate jurisdiction (some immediately contested this claim), and, with fine impartiality, he also wants to gain jurisdiction over rural electric cooperatives.

The perennial issue of giving FPC power to regulate industrial sales of natural gas is before Congress again, and gas industry men say that chance for passage is the "best ever." They attribute this to Swidler's aggressiveness.

Swidler has asked for control over sale of securities by pipeline companies, and he has indicated that he would use this power to force sale by competitive bidding in favor of negotiated underwritings. This might result in lower costs for some pipeline financings, but it also might interfere with a utility's freedom to finance when and where it sees fit. Swidler also has been vainly pushing a plan to take over administration of the 1935 Public Utility Holding Company Act from the Securities and Exchange Commission. This would give FPC a new tool for overseeing many of the Nation's largest electric utilities.

Through all this, Swidler seems to have one guiding principle: low-cost power for the consumer. Some industry critics, however, argue that his pursuit of this goal has been at the expense of another important task: setting clear guidelines as just what constitutes a fair rate of return for companies he regulates.

There is no well-defined standard of a fair return in American law; rather, as the Supreme Court put it in the precedent-setting *Hope Natural Gas* case in 1944: "The ratemaking process * * * involves a balancing of investor and consumer interests * * *."

Quite obviously, this frees FPC from adherence to narrow formulas in setting rates. By the same token, utility analysts say, this puts the burden on regulatory agencies such as FPC to interpret the Court's broad language in a manner that allows businessmen and investors to make intelligent decisions based on past precedents. This, they say, FPC so far has avoided doing. Actually, no issue divides the five members of the Commission more thoroughly than rate-of-return philosophy; in their last opinion, five members all had somewhat different ideas.

Telegraphing his punch.—From Swidler's point of view, his brand of regulation should not have taken the utility industry by surprise. He pledged a tough line immediately after he was named to the job. But it has taken him 2 years to shake FPC free of its regulatory snarl in the gas industry.

The snafu was partly an inevitable consequence of the expansion of gas in the home heating market in the early 1950's; more importantly, it was due to the outright refusal by former FPC members to accept the 1954 Supreme Court decision, involving Phillips Petroleum Co., that gave the Commission responsibility for regulating natural gas producers (as well as the transmission companies).

The FPC tactic had been to lobby for Congress to reverse the decision, a course of action that one observer tabbed "contemptuous of the Supreme Court." Swidler reversed this line and accepted the *Phillips* decision.

This move, which Swidler considers his most significant, had two important consequences: (1) It cleared the way for rate settlements, and (2) made it possible to start refining FPC's area pricing policy (which sets price ceilings for gas within defined areas) into a workable system of regulation.

Thus, Swidler thinks that FPC's major problems are now in hand, and he feels that he has the time and resources to devote to his main goal: greater efficiency and lower costs in both the gas and electric industries. He expects to become more and more controversial in doing so. "I think the honeymoon may be over," a pipeline official comments.

More than a reviewer.—Even if it is, Swidler plans to continue with the style that marks him as almost the model New Frontier regulator. He insists on efficiency at the Commission. He shies away from the sort of anti-industry attacks that characterized regulators of 30 years ago. He describes himself as "a consumer's man," but he is nearly as solicitous of industry.

In this way, he hopes to be a shaper of important decisions in the making, instead of just a reviewer of business decisions already made.

Swidler likes results more than strife over doctrine. He leans to negotiation and compromise. He loves novel solutions to tough problems—the kind with something for the consumer, and something for the company. An example is his dream of a system of incentives in pipeline ratemaking, to allow more profit to the best-managed companies.

Two-way benefit.—In a kind of "regulation-can-be-fun" campaign, Swidler has asked companies for new ideas. He preaches the notion that intelligent regulation that brings down rates can benefit companies as well as their customers.

In short, Swidler is maneuvering the agency into a position to influence the battle coming to a head between natural gas and electricity.

Swidler will be prodding both sides to become better competitors. Already, he is urging the power companies to take advantage of the efficiency of extra-high-voltage transmission, while seeking to keep gas prices stable from the producing fields to the furnaces of New England and Chicago.

The coming pinch.—While Swidler's objectives are hard to argue with, industry will find his policies pinching more and more. "I expect people to want to buy low and sell high," he says, "but what I do ask is that they take the long view."

But a gas distributing company lawyer, disappointed with FPC's results in bringing down producer prices, says: "We've been getting a lot of regulation by press release. The Commission is in danger of hypocrisy when it trumpets victories for the consumer that aren't there."

II. TEAMWORK—ALMOST

Swidler has had the advantage of heading a major regulatory agency composed entirely of Kennedy appointees, three Democrats and two Republicans. This hasn't made life a breeze, however. Early in his term, he got into a bitter personality conflict with Howard Morgan, a maverick Oregonian named by Kennedy who was slated to be dropped from the Commission if he hadn't beaten the President to the punch by declining reappointment.

With Morgan gone, bitter feuding is at an end. But policy differences remain. The two Republicans, Charles R. Ross, former chairman of the Vermont Public Service Commission, and Harold C. Woodward, former Illinois judge, both have differences with the Chairman. So does Democrat Lawrence J. O'Connor, Jr., a Texas oil executive and former administrator of the Federal oil import program. The third Democrat, who was Morgan's replacement, is 35-year-old David S. Black, former general counsel of the Bureau of Public Roads.

But these differences, though sharp, are not likely to upset the balance of power at FPC. With the powers inherent in the chairmanship and a staff of competent assistants in key spots, Swidler is able to dominate Commission operations fairly well with a handpicked cadre. Chief among his staff appointees is Richard A. Solomon, who Swidler recruited from the Justice Department.

In addition, Swidler set up a separate Office of Economics, now headed by Dr. Haskell P. Wald, former assistant director of the Treasury Department's Office of Financial Analysis. Wald's office may number 22 economists by next year. Swidler also brought in a young lawyer-engineer, S. David Freeman, from TVA to act as his personal advisor, and put a widely respected Army Corps of Engineers official, F. Stewart Brown, in as head of the Bureau of Power.

III. A NEW KIND OF REGULATION

With the backlog under control, Swidler has some new departures in store for the gas pipelines.

He would like to see a kind of continuous regulation. The companies would be looked into regularly, and their rates adjusted up or down. A contested case would become a rare event, necessary only to resolve some new policy question.

That's the thought behind the industrywide rate investigation that has alarmed the pipelines recently. Actually, this procedure is routine with many State utility commissions. No utility contends that it is entitled to earn consistently more than its allowed rate of return.

If this is the sort of thing the FPC has in mind, a number of companies quietly will negotiate cuts. Swidler isn't tipping his hand, but if the Commission plans a general rollback of rates, a fight is brewing.

A nod toward higher earnings.—This does not seem to be in the cards. Indeed, the Commission appears to be looking more favorably on somewhat higher earnings. Swidler would like to abolish the FPC's informal 10 to 10.5 percent limit on common stock earnings of the pipelines. This was imposed shortly before he came to the Commission, and took a lot of zip out of pipeline stocks. The limit has become one of the depressing facts of life, says a pipeliner, because high leverage companies, on account of their higher risk, had previously been allowed considerably more than 10 percent earnings on equity.

Swidler believes that a higher proportion of debt, encouraged by letting equity earnings rise, would benefit gas users. He argues, paradoxically, that companies with a high proportion of debt in their capital structures actually have a lower net level of fixed charges than do companies with low debt, thus permitting the high-debt company to cut its rates. In effect, Swidler is saying that for a utility (which must constantly attract new capital) the payment of common dividends is in fact a fixed charge, even though there is no legal requirement to pay. Interest, of course, is tax deductible, while dividends are not.

Commissioner Ross doesn't see it that way. To him, the fiscal integrity of the pipelines comes first. He sees no merit in encouraging riskier companies, and speculates that the consumer actually might lose in the long run if higher leverage brought lower bond credit ratings, and higher interest costs.

Disapproval.—Ross follows this reasoning to sharp disapproval of the trend among some pipeline companies, such as Tennessee Gas Transmission, toward buying enterprises that are not regulated. Ross is against this, particularly when new subsidiaries have no relationship to the oil and gas business.

IV. PRODUCER PUZZLE

Swidler still is far from finished, too, in setting us a workable system for regulating natural gas producers. True, his endorsement of the *Phillips* decision breathed new life into the faltering concept of area pricing. But the legal bickering goes on.

The test case involves fixing ceiling prices for gas in the Permian Basin of west Texas and New Mexico. The argument boils down to whether producers should get 18 cents per thousand cubic feet, as they contend; 16 cents now allowed by the FPC under a temporary ceiling; or 14 cents as the FPC staff argues. The betting now is that the FPC will finally wind up where it is now, at 16 cents, but the importance of the case lies in how it arrives at that figure.

To make sense out of the 27,000 pages of testimony, the hearing examiner, Seymour P. Wenner, took the unusual step of calling his own witness, Charles H. Frazier, director of development of the Philadelphia Gas Works, and a respected industry spokesman.

Frazier goes along with the 16-cent price level which Permian Basin producers could live with. But they are alarmed by Frazier's method of reaching the figure.

A possible rollback.—Producer economists say that Frazier's methods applied to the rich, newer producing areas of southern Louisiana and the Texas gulf coast would result in a price rollback—probably from 20 to 18 cents in Louisiana. This would please the east coast gas distributors, for it would cut their gas costs significantly. But producers say the price isn't high enough for costly offshore production.

Meanwhile, however, the cost of gas in the field has stabilized—partly because of oversupply, partly because of the FPC's determination to hold to its temporary ceilings, reducing them in some areas.

Happy—and unhappy.—Distributors are pleased by this, but some of them are not so happy with Swidler's attempts to influence their rates. They have received huge refunds from the pipelines in the rate settlements and—despite his lack of authority in the intrastate gas business—Swidler is pressuring them into passing on the refunds to their retail customers. This effort has been widely criticized as a heavy-handed push outside FPC's sphere.

It would be unrealistic to expect Swidler and the present FPC to swing away from this basic orientation toward the consumer. FPC officials look forward with gusto to the sharpening battle between electricity and gas, and they see the future growth of the gas industry depending on its ability to compete with electric power.

Swidler sees the FPC as the logical forum for bringing the conflicting forces together. But despite Swidler's long career with TVA, his arbitration promises to be impartial between power sources, though clearly consumer biased; private power companies, indeed, have been pleasantly surprised to find him more interested in cheap kilowatts than in crusading for more public power. Says one power company executive: "At least this gives us a fighting chance."

Mr. JONAS. Mr. Chairman, may I ask who was the man quoted?

Mr. SWIDLER. This is the Landis report, as I recall.

Mr. JONAS. Dr. Landis?

Mr. SWIDLER. James Landis; yes, sir.

Mr. THOMAS. Go ahead. Is he the one who got his income tax balled up about this time because he was so busy he overlooked it for 5 or 6 years?

Mr. JONAS. I think so.

Mr. THOMAS. Go ahead.

Mr. SWIDLER. That is the man.

Mr. JONAS. He is your chief witness?

Mr. SWIDLER. He made the report for the President, sir. Whether he filed his income taxes or not, he was a man with a great deal of experience in administrative matters.

Mr. JONAS. Would you state for the record some of the other people besides Dr. Landis who said there had been a breakdown in the Federal Power Commission activities. You said it was generally accepted and understood that that was the case.

Mr. SWIDLER. I will be glad to.

Mr. JONAS. Put them right there in the record now.

Mr. SWIDLER. I do not recall their names. I will get them for the record. I have not made a point of memorizing these things. I had thought this was something that everybody knew.

Mr. JONAS. I would say to you there was a considerable dispute about that. There are some people in the country who thought they were overregulated under your predecessors. You will not get a unanimous verdict on that.

(The information requested follows:)

SPECIAL MESSAGE TO CONGRESS ON REGULATORY AGENCIES

(President Kennedy, April 13, 1961)

B. *The Federal Power Commission.* One situation, however, is not amenable to this general treatment [certain general recommendations for administrative reform]. This is the condition that exists in the Federal Power Commission. In that Commission some 4,000 rate increases by independent natural gas producers and pipelines are pending and are still unresolved. Under the existing law, these rate increases are suspended but nevertheless go into effect within 6 months after their filing, subject to the provision that such sums as are collected in excess of the rate ultimately found to be reasonable are to be refunded to the consumer. This incredible backlog of cases, consisting frequently of rate increases piled upon rate increases, involves hundreds of millions of dollars deemed ultimately refundable to the consumer. Indeed the annual amount of rate increases so suspended is over $500 million. The total amount of rates collected pursuant to such increases is well over $1 billion.

This situation is paralleled by another just as serious. Under existing procedures and methods for processing applications for pipeline construction, some 193 applications, proposing construction of 5,761 miles of pipeline at a total estimated cost of some $850 million were pending before the Federal Power Commission as of the end of February 1961. It is not to be assumed that all these applications would be granted; but it can safely be assumed that more prompt handling of these matters would release hundreds of millions of dollars for construction, giving substantial employment throughout the country and making firm commitments out of orders for materials that are now merely contingent—orders that in turn would provide jobs for men and women in mills, factories, and foundries.

EXCERPT FROM REPORT ON REGULATORY AGENCIES TO THE PRESIDENT-ELECT

Submitted by the chairman of the Subcommittee on Administrative Practice and Procedure to the Committee on the Judiciary of the U.S. Senate, December 1960, 86th Congress, 2d session

6. The Federal Power Commission without question represents the outstanding example in the Federal Government of the breakdown of the administrative process. The complexity of its problems is no answer to its more than patent failures. These failures relate primarily to the natural gas field, in the Commission's handling of its responsibilities with respect to the transmission and the production of natural gas. Enough has already been said about the delays in this field, so terribly costly to the public and so productive of unemployment in other basic industries (pp. 54–55).

* * * * * * *

* * * primarily leadership and power must be given to its chairman and qualified and dedicated members with the consumer interest at heart must be called into service to correct what has developed into the most dismal failure in our time of the administrative process (p. 58).

[From Fortune, September 1949]

THE UNNATURAL PROBLEMS OF NATURAL GAS

(By Richard Austin Smith)

* * * * * * *

The unhappy fact, however, is that natural gas today is in a mess. Seldom has any industry been so fouled up by bureaucratic lassitude, so burdened with internal confusions and uncertainties. None of the 1,300 distributors who are dependent on interstate gas can confidently make the business decisions upon which systematic growth depends, so long as the Federal Power Commission shirks its statutory responsibility of regulating the price of gas in the interests of the consumer. None of the 100-odd interstate pipelines can know with reasonable certainty what its past or future earnings may be until the FPC sets up a new yardstick for profits and gets cracking on a backlog of well over 2,000 unsettled pipeline-producer rate cases (the bulk of which have been gathering dust for 2 or 3 years). None of the 150 major producers can be sure how well they will do on their interstate sales, which represent over half of all the gas put on the market; after 5 years the Commission has still to come up with a formula for regulating producer prices. On those few occasions when the usually lethargic FPC has stirred its stumps, nobody has had any assurance that its stirrings were in the right direction. Last year courts of appeal reversed more than half of the Commission's contested orders. And this year the Supreme Court, in a unanimous opinion, upbraided the agency for having approved a new high price for gas producers on "insufficient evidence."

[From the American Bar Association Journal, May 1962, vol. 48]

THE FEDERAL POWER COMMISSION AND "THE FOLKLORE OF CAPITALISM"

(By William A. Brewer, District of Columbia Bar)

* * * * * * *

Since then (the *Phillips* decision in 1954), a battle royal has raged on the fields of the Federal Power Commission, the Congress, and the White House. * * * As one result of the strife, the administration of the Federal Power Commission has almost completely broken down.

[From the T-World, published by Tennessee Gas Transmission Co., winter, 1961]

NEW FPC FACES CHALLENGING OPPORTUNITY

* * * * * * *

To a situation which has been deteriorating for years, Chairman Swidler and his new Commission bring promise of fairness and order. They have stated frankly that they knew very little of the gas business prior to their appointments to the Commission. But in the short period of less than half a year, in public speeches and other discussions, they have set a new tone for an entire industry. By open invitation they have obtained a hopeful measure of cooperation from all segments of the industry and have made it again appear worthwhile to work for improvement in the regulatory processes.

There are many avenues through which improvements can be made. The new Commissioners, unbound by past actions of their own, may well be exploring many of these already.

Faced with its inheritance of cases and a procedural pattern which was set by past Commissions and is inadequate to solve present problems, the Commission is presented with a serious challenge. New ground must be plowed. New regulatory literature must be written. Bold action and much courage will be necessary. But however burdensome, the challenge carries with it the opportunity of performing an outstanding public service.

[From the New York Times, Apr. 8, 1962]

KENNEDY'S FPC PLEASES GASMEN

* * * * * * *

Certain definite facts emerge from the present situation. The new Commission, which now comprises five Kennedy appointees, three Democrats, and two Republicans, inherited a tremendous backlog of rate cases. The bulk of them related to producer rates but there were quite a few related to open-rate cases of pipeline companies.

Most people in the industry will concede that the FPC has set out to do just about everything within its power to clean up this backlog.

[From Gas, September 1962]

FPC ACCELERATES

The momentum achieved by FPC under the strong leadership of Chairman Swidler is remarkable and commendable. Acceleration is important to produce FPC policy statements as well as decisions in pending major rate and certificate cases for the guidance of the gas industry. To repair the breakdown of the administrative machine, and to put FPC in high gear are the aims of Chairman Swidler.

[From Forbes, Jan. 1, 1963]

NATURAL GAS

Natural gas executives in 1962 at last began to settle their important rate cases. Until that happened, pipelines could only guess how much of their revenues might have to be refunded. And distributing companies had trouble setting their own rates with State and local regulatory bodies, because they could only guess what the actual cost of the gas they purchased from the pipelines would turn out to be.

To be sure, rate troubles had not exactly stunted the industry's growth. Measured by capital invested, natural gas had become the sixth largest U.S. industry. It provided over a third of the Nation's energy needs in the form of 13 trillion-plus cubic feet of natural gas that brought in revenues of over $6 billion. But the clouds had begun to gather ever since the *Phillips* decision in 1954, when the Federal Power Commission was adjudged responsible for regulating the price of natural gas sold by independent producers moving in interstate commerce. The FPC tried to handle each of the resulting thousands of producer and pipeline cases individually, and fell hopelessly behind. As the years passed, comanies kept making new rate increases (as many as a dozen) before the FPC had decided on their old ones. As a consequence, by December of 1961 the eight largest pipelines had collected a staggering $800 million that they could be ordered to refund.

* * * * * * *

President Willis A. Strauss, of Northern Natural Gas Co., expressed the intense relief that industry executives felt as the uncertainty was dispelled. "For the first time in 5 years," said Strauss, "we know where we stand earningswise. It's only good business to know where the hell you stand running your business."

[From Forbes, Sept. 1, 1963]

* * * As of mid-1962, U.S. pipelines had collected a staggering $1.1 billion subject to refund.

But that threat has now been largely faced and dealt with. * * * Now, for the first time in years, many a pipeline's earning's statement could be trusted to mean what it said.

For this relatively clean slate, the industry can thank the new Kennedy-appointed Federal Power Commission, which, while seldom dealing gently with the pipelines, has nevertheless acted with decision and dispatch. * * *

STATEMENT BY REPRESENTATIVES OF THE AMERICAN PUBLIC POWER ASSOCIATION AND THE NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION TO THE PRESIDENT AT MEETING WITH HIM ON SEPTEMBER 23, 1963

We commend the FPC for assuming, during this administration, an increased role in wholesale electric rate regulation. The Commission is for the first time, closely scrutinizing the rates and practices under which wholesale power is made available by investor-owned utility systems to municipally owned electric distribution systems. Suspension by the Commission of certain wholesale rate increases in the State of Wisconsin has already resulted in a benefit to these municipal systems of approximately $100,000. The Commission staff has recommended, in a formal proceeding, that wholesale power be made available to the municipal power system in Shrewsbury, Mass., at substantially reduced costs. The Commission is also investigating certain inequitable rate schedules imposed upon municipal electric systems and rural co-ops in several States. For these activities the municipal electric utilities are grateful.

Mr. BOLAND. There was an article in Fortune magazine a few years ago highly critical of Federal Power because of its inability to do the work as it should be done. He does have some occasion to talk about the fact that it was criticized, and highly so, for its failure to regulate properly. This is a very difficult agency to run. It is very highly controversial.

BACKLOG SITUATION ON NATURAL GAS CASES

Mr. SWIDLER. Let me give an example, Mr. Chairman. When the Commission took office, there was a backlog of pipeline rate cases which involved over a billion dollars of rates which had been suspended subject to refund. This meant that there was not a major pipeline in the whole country that had a firm financial report. This hung like a cloud over the ability of these pipelines to finance themselves. It meant that hundreds of millions of dollars of rates paid by consumers were held in suspense by the companies who did not know how much of it belonged to them and how much to the consumers.

I am happy to say that situation has been cured. I think it was a very serious one. We have ordered $550 million of refunds. There is no major pipeline rate case stalled on the tracks.

We have now no more than a normal backlog of pipeline rate litigation. We have in all disposed of cases in which the aggregate amount of rates collected subject to refund approached $2 billion. I consider this quite a break from the past and a real achievement.

What I have to show for my years of work are only some claims such as this for having performed a public service. Clearing up the pipeline rate backlog is something that I feel proud of and I think the Commission feels proud of.

Mr. THOMAS. That has been done, but it was not an impossible job to do. You had a tremendous job over there, a blanket order, they could take it or leave it. That was it. It covered dozens upon dozens. I do not know why it took you so long to do it, even at that.

Mr. SWIDLER. That may be, but it was not done before. There were no programs or plans set up for doing it. It was not done with the staff that was previously available and could not have been done with that staff. It was with the support——

Mr. THOMAS. Why?

Mr. SWIDLER. Because it took more people to do this. Each of these cases involved a great deal of manpower. We needed the staff support

which we received in order to dispose of these cases. I am speaking of the pipeline rate cases.

On the producer side the situation was, if anything, just as bad. The Commission had not developed a method of fixing producer rates. It had abandoned individual pricing of the producers.

Mr. THOMAS. You have been over there 3 years. You certainly made some progress. You have about four pricing areas. How many of them are completed? When you get the four completed, it will cover about 75 or 80 percent of your producers throughout the United States. When will you get it completed? You have had 3 years.

Mr. SWIDLER. This is a slow program.

Mr. THOMAS. Suppose you were to leave the Commission. Somebody else would come on. He would say that this fellow had 3 years, he did not do it, here it is, I have done it in 6 months. He would be about in the same position you are putting yourself in now, would he not?

Mr. SWIDLER. He would be entitled to a great deal of credit if he did it in 6 months. To my mind, the greatest administrative challenge that any regulatory agency has faced is to bring gas producers within the scope of a scheme of regulation. I need not tell the members of this committee that they are not well suited to conventional regulation in the way that most utilities are.

It has been necessary to develop a type of regulation which would take into account the realities of the production of natural gas by the great petroleum industry of this country, with all their problems of joint products, with all their problems of dry holes, with all the problems of joint ownership of the wells and of the fields, with all the relationships of prorations and conservation. This is a real challenge.

PERMIAN BASIN CASE

Where we are now, Mr. Chairman, is that we have one case which is moving rapidly toward completion. All the proof is in.

Mr. SHIPLEY. What case is that?

Mr. SWIDLER. That is the Permian Basin case. All the proof is in. The briefs have been filed. Now the examiner has this case for decision.

Mr. SHIPLEY. You have been working on that case about two and a half years?

Mr. SWIDLER. Yes, sir, this is the lead case where we have been forging new tools, you might say.

Mr. SHIPLEY. With the chairman's permission, what have been some of the obstacles that have taken so long on this case? This is an example case and you have been working on it for two and a half years.

Mr. SWIDLER. This case is a consolidation of some 360 separate dockets. There are in this case scores of producers, each with their separate interests, scores of pipelines, and scores of distributors intervening to protect their interests.

Mr. SHIPLEY. Are these independent producers?

Mr. SWIDLER. The word "independent" is used in a double sense in the industry. The term "independent producer" sometimes distinguishes them from the pipeline segment. In that sense, it includes the large producers. Sometimes it is used to designate the smaller units of the industry.

Mr. SHIPLEY. This is what I am interested in.

Mr. SWIDLER. The parties in the Permian case include both the large integrated producers like Phillips and Humble, as well as the smaller producers and their associations.

Mr. SHIPLEY. How many are independents not associated with Humble or one of the other major producers?

Mr. SWIDLER. How many are in this case?

Mr. SHIPLEY. Yes.

Mr. SWIDLER. I cannot answer that question. Mr. Watters may be able to.

Mr. WATTERS. I would have to supply that.

(The information follows:)

For reporting purposes, the Commission considers any independent producer selling less than 10 billion cubic feet of natural gas is a small producer. Using this as a guideline, there are 306 small producers in Permian Basin case.

Mr. SHIPLEY. What percentage, if you can give me a guess?

Mr. SWIDLER. I would not want to guess except that one of the parties in the proceeding is the Texas Independent Producers & Royalty Owners Association, so that a great many of the small producers are represented through a joint spokesman and each is not under the necessity of putting in its own case.

Mr. SHIPLEY. I did not get the answer I wanted. I realize there are many individual companies involved in this. Is this the only reason it has taken 2½ years?

Mr. SWIDLER. No, sir.

Mr. SHIPLEY. What are some of the other reasons?

Mr. SWIDLER. I think the primary reason is feeling our way on the procedures. It was necessary to hold a number of prehearing conferences to determine the scope of the evidence, the order of presentation, nature of proof.

Mr. SHIPLEY. How many hearing days have you had on this case—200?

Mr. SWIDLER. I would say at least that. (The exact number is 254 days.)

Mr. SHIPLEY. Is that exaggerating?

Mr. SWIDLER. No; it is not exaggerating. Another thing that held it up was these hearings were not held consecutively because, as I say, the parties were feeling their way.

STATUS OF NATURAL GAS REGULATION

In the second case, which is the *Southern Louisiana* case, the hearings will be consecutive. We think the hearing in that case can probably be held in about half the time that it took in *Permian*, but *Permian* was the first case in which such a proceeding had ever been tried.

Mr. THOMAS. You are bragging on yourself a little too much; are you not? You never saw a gas well, did you, before you got this job? Your experience has been in the electric power industry and TVA. What do you know about oil and gas? Are you trying to tell us now all the brains in the gas industry are over in the Federal Power Commission?

Mr. SWIDLER. No, sir.

Mr. THOMAS. You did not say it in so many words, but you have intimated that. You have done this, you have done that, you have done the other. It never had been done before. Who furnished all these brains? What did you know about the gas industry before you got this job? Did you ever see a gas well before?

Mr. SWIDLER. No, sir.

Mr. THOMAS. You learned quickly; did you not?

Mr. SWIDLER. I am just trying to do as good a job as I can, sir. I make no claim to being an expert, and in my confirmation hearings I said very frankly that I knew very little about the oil and gas business.

Mr. THOMAS. You have done the impossible, starting from scratch. So, ipso facto, you are the greatest gasman in the world and know more than all of them put together. This was in 3½ short years.

Mr. SWIDLER. Two and a half, sir, as Chairman.

LETTER FROM INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

(NOTE.—The following letter from the Independent Petroleum Association of America was subsequently received:)

INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA,
Washington, D.C., March 16, 1964.

Hon. ALBERT THOMAS,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN THOMAS: The Federal Power Commission recently has submitted to Congress its 1963 annual report. We believe this report is grossly misleading.

In this report it is stated that "the Commission has put into effect a workable plan" for regulating producers of natural gas. It further states that during the year it has made "considerable progress" and "solid gains" in producer regulation. Thus, the report seeks to create the impression that all is well with respect to producer regulation. The facts show to the contrary.

For 10 years, since the Supreme Court *Phillips* decision in 1954, the FPC has been experimenting with producer regulation. Utility-type regulation was abandoned as unworkable after 6 years. For the past 3 years, the FPC has been experimenting with the "area price" method involving 23 separate areas. The first area proceeding is still underway, being far from final determination and even then subject to question as having no legal basis. The record therein shows that in groping for a solution, the Commission is resorting to absurd schemes and theories of regulation. A reply brief, copy of which is enclosed, which we filed in this case cites some examples of these absurdities.

This 10-year experiment by FPC has involved a tremendous waste of public funds, unnecessary costs to the industry, and higher prices to the consumers of natural gas. We believe this situation warrants investigation by the Congress. Your consideration of this matter would be very much appreciated.

Very truly yours,

L. DAN JONES.

UNITED STATES OF AMERICA BEFORE THE FEDERAL POWER COMMISSION

DOCKET NOS. AR61–1, ET AL.

IN THE MATTER OF AREA RATE PROCEEDING ET AL. (PERMIAN BASIN AREA)

Response to Presiding Examiner's Questions to Parties and Reply Brief of Independent Petroleum Association of America

INTRODUCTION

This is in response to the Examiner's communication issued in this proceeding on December 19 requesting parties to answer the following two questions.

1. What is the significance, if any, upon the determination of the fair rate of return of the difference, if any, between the earnings-price ratios of the integrated and the nonintegrated producers?

2. Assuming directionality of search between gas and oil, what is the impact on exploration for gas of a return for gas less than that received for oil?

This is also being submitted as a reply brief in the nature of a general commentary on the Initial Staff Brief filed in this proceeding.

There two matters are joined herein because both (1) the fact that the Examiner finds it necessarily to propound these two questions and (2) the general nature of the Initial Staff Brief are exemplary and highly significant in our opinion in demonstrating a singular point, namely, that this proceeding is now beyond the rule of reason as to both scope and complexity.

These two matters very persuasively reveal that this proceeding has become a morass of experimentations with theoretical ideas and concepts in the continuation of a 9-year administrative effort to find guidelines for the regulation of producers of natural gas.

COMMENTARY

The answers to the two questions posed by the Examiner are irrelevant to the responsibilities of the Commission. The mathematical earnings-price ratio is remote from the field price of natural gas; it is especially inappropriate when applied to the hundreds of small producers who operate in the Permian Basin; it involves the complexities of the stock market including the human element that injects the uncertainties of the speculators; and it is separated from the supply and demand function which has been the historic determinant of the field price of natural gas. Thus, the earnings-price ratio has no function in the determination of the field price of natural gas of either the integrated or nonintegrated producer and, therefore, there is no ascertainable or meaningful significance in the difference in the ratios of the two groups of producers. Also, if natural gas is underpriced in relation to oil, and all other factors are equal which they are not but which we must assume or we become enmeshed in endless assumptions, obviously the producer is going to direct his efforts in the exploration for oil.

Yet, despite the vague, if any, relationship these two questions have to the field price of natural gas, the status of this proceeding has become so involved with superficial considerations that parties in this proceeding are now engrossed in metaphysical excursions into a myriad of meaningless facets of the (1) earnings-price ratio and (2) the simple economic incentive that makes man explore for oil and gas.

With reference to the Initial Staff Brief, it is pertinent to observe that it is over 500 pages long. Three aspects of the brief will illustrate the purpose here.

First, a basic premise of the Staff case rests on the construction of a composite rate base of a selected group of producers. Despite the fact that in 1960, after 6 years of experimentation, the Commission found that it was improper and impractical to apply the traditional utility rate-base concept to producers, we now find that the Staff has retrogressed to that rejected base and, in fact, through the composite process injected further complexities. Although the area pricing approach was designed as a substitute for utility rate-base cost-of-service regulation, after almost 3 years in this proceeding, it is now apparent that the Staff case and objective is a utility rate-base cost-of-service regulation of producers. At the outset, the Staff rests its case on a selected group of producers thereby subjecting the results of the inherent weakness of the sampling process. Aside from the legal questions posed by this approach, there are also questions as to the adequacy or propriety of the mathematical result of the sample, since the effect of omitting many producers will remain an unknown. This process of grouping pro-

ducers in a composite rate base may offer administrative efficacy but it preserves all the weaknesses which led the Commission 3 years ago to relegate the utility rate-base cost-of-service concept. And the composite rate-base cost-of-service approach is especially onerous on small procedures who do not have the personnel or financial resources to cope with the complexities inherent therein.

Second, and even more revealing of the abstruse complexities with which this proceeding is becoming involved, is the Wein econometric theory which is a keystone to the Staff case. In essence, the Wein theory finds that if prices are decreased sufficiently, it follows that demand increases, production increases, and exploration increases. The traditional supply and demand function, tied inextricably to cost of production, which has been vital in developing the U.S. economy second to none in the world, is discarded. So are other factors such as the all-important one of management judgment that is indispensable in the competitive system in which we live. The Wein theory may be a recondite and eminently expertise analysis of an economic theory but it overshoots the day-to-day facts of business life faced by producers of natural gas. And it leads to false and erroneous conclusions. For example, based upon the Wein theory the Staff in its Brief (Page 300) concludes that there is an oversupply of natural gas which imposes upon the Commission, under the Natural Gas Act, the burden of enabling the states to assure a market for shut-in production. The Commission has no responsibility or authority under the law to concern itself with the stimulation of markets or the problems of the states or the industry regarding shut-in capacity. This illustrates how far afield the area pricing approach may go unless corrective action is taken.

Such undertakings and theories as here expounded by the Staff are incompatible with the natural gas producing industry as it exists today, and if imposed upon it, the very nature of the industry would be basically altered in our opinion, bringing about catastrophic upheaval in the economic framework of the industry with chaotic results, damaging both to the consuming public and the Nation's supremacy in energy availability.

Third, another incomprehensible conclusion contained in the Staff Brief (Page 414) is the statement: "* * * admittedly, a wildcat, viewed singly, has only a one-in-nine chance of being successful. But the very materials referred to by respondents show that this has been regularly true through at least the last 15 years. For the prudent industry, then, this aspect of wildcatting appears fairly certain and accountable."

Through this deceptive and circuitous argument, the Staff reaches the unsound conclusion that an independent producer who individually may drill nine wells, all dry, which often happens, is not dealing in a high-risk industry because the overall industry ratio of one successful well for every nine wildcats drilled has existed for 15 years. In other words, since the risk factor has been consistent then it does not exist.

Thus, Staff is contending that if an industry remains risky long enough the risk factor will disappear. This wholly disregards the experiences of individual producers and the effect of the risk factor upon individuals. It ignores the fact that the industry is made up of thousands of individual producers. Based on this faulty premise, the Staff then concludes "production not shown riskier than other petroleum operations," such as marketing refining, and transportation.

Although in this proceeding the Commission is concerned only with natural gas production, the Staff case and argument encompass all segments of the petroleum industry, including the marketing, refining, and transportation of oil as well as gas. The Staff then argues that its study "indicates petroleum to be less risky than most industries."

Applying these conclusions to this proceeding, the Staff seems to be saying that searching for gas in the Permian Basin involves little risk, no more than most industries, and in establishing rates for the sale of gas in the Permian Basin, there is no need to recognize the risks of the individual producer in that area. If the producer can't live under the Staff's criteria, then apparently the Staff would have him quit the business, as independents would be forced to do.

CONCLUSION

There is an urgent need that the Commission responsibility in this proceeding be brought into proper perspective. It is recognized that the Commission is faced with a practical problem of carrying out the mandate of the Phillips decision of 1954. But surely practical men in the Commission, the Staff, and the industry concerned can find reasonable answers and apply workable concepts to the very practical and ordinary business problems faced in the operations of the natural gas producing industry. The answers do not necessarily have to

be simple but they must be subject to ordinary comprehension and within the bounds of practical and feasible applicability. The Examiner in his tentative conclusions in this proceeding has recognized this need by finding that the complexities involved impose a heavy burden on parties herein, particularly the small producers.

At this juncture in the area pricing approach, we submit that the responsibility rests upon the Examiner to bring this proceeding into focus on the practical job at hand by coming forth with a simplified and practical basic guideline for producer regulation.

To this end, we again urge the Examiner to find that "market value" as determined by currently negotiated arm's-length contract be established as the guideline in producer regulation.

It is further urged that the Examiner recommend that the Commission seek a legislative mandate that would establish this standard *by law* so as to lay to rest the legal uncertainties which now plague the entire area pricing concept.

Respectfully submitted.

INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA,
L. DAN JONES, *General Counsel.*
WILLIAM I. POWELL, *Assistant General Counsel.*
By L. DAN JONES, *General Counsel.*

Dated at Washington, D.C., January 15, 1964.

(NOTE.—The following letter was received subsequently from the Federal Power Commission:)

FEDERAL POWER COMMISSION,
Washington, D.C., April 13, 1964.

HON. LINDLEY BECKWORTH,
House of Representatives,
Washington, D.C.

DEAR MR. BECKWORTH: I greatly appreciate the opportunity you have given me to respond to the March 16, 1964, letter sent to you by Mr. L. Dan Jones, general counsel of the Independent Petroleum Association of America. In his letter Mr. Jones takes issue with statements in this Commission's 1963 annual report to the Congress in which it was indicated that the Commission has "put into effect a workable plan" for regulating natural gas prices charged by producers for sales to interstate pipeline companies, and that "considerable progress" and "solid gains" have already been made in this sphere. Mr. Jones argues that the only result of the Commission's efforts has been "a tremendous waste of public funds, unnecessary costs to the industry, and higher prices to the consumers of natural gas." Further, he suggests that the area pricing techniques now being applied by the Commission in fixing the just and reasonable prices for gas sold by producers of natural gas are doomed to failure. I disagree with Mr. Jones on both counts.

This Commission has never minimized what the Supreme Court has recently characterized as "the unusual difficulties inherent in regulating the price of a commodity such as natural gas" (*Wisconsin* v. *F.P.C.*, 373 U.S. 294, 310). We are proud, however, of the progress which has been made in our program for producer regulation since the present Commissioners took over the task in mid-1961.

As the annual report makes clear, we have taken action toward both a permanent and interim solution to producer rate regulation problems. First we are establishing a practical system for fixing just and reasonable producer rates. In the interim it is essential that the Commission take action to hold the price line and stop the price spiral which had characterized the natural gas industry prior to 1961. We believe that we have achieved considerable success in both areas.

As a permanent solution to the problem of producer rates the Commission is proceeding with the so-called area rate approach, a concept which recognizes that it makes neither economic nor administrative sense to fix producer gas prices by determining the individual cost of service for each of the thousands of producers of natural gas. The new area concept is of course not free from problems and Mr. Jones is correct in saying that none of the area proceedings are as yet completed. However, 4 such proceedings are now underway involving approximately 75 percent of all of the gas flowing in interstate commerce, and 10 of the 23 pricing areas referred to by Mr. Jones. The hearings in the first of these proceedings covering the Permian Basin for Texas and New Mexico has been completed and the examiner is now preparing his initial decision; the second case covering all of southern Louisiana, where the Com-

mission and the parties have been able to take advantage of the experience gained in the pilot proceeding, is moving at about twice as fast a pace and already the direct and rebuttal cases of all parties have been introduced into the record.

It would of course not be appropriate for me to comment on the specific matters raised in Mr. Jones' brief in the *Permian* case which he enclosed in his letter to you since that case will soon be before the Commission for decision. I think it should be noted, however, in view of Mr. Jones' suggestion that the area pricing method may have "no legal basis," that the Supreme Court of the United States recently stated that "we have no indication that the area method will fall short of statutory or constitutional standards" and that it "share[d] the Commission's hopes that the area approach may prove to be the ultimate solution" (*Wisconsin* v. *F.P.C.*, 373 U.S. 294, 308-310, decided May 20, 1963).

As I indicated above, the Commission has taken interim measures to exercise its jurisdiction in the public interest pending completion of the area rate proceedings. Specifically the Commission has—

(1) Prescribed guideline prices which are ceilings above which price increases are suspended and new producer sales applications are rejected;

(2) Taken steps to fix the initial inline rate in all areas where either the producers or the consumers have contended that the guideline ceiling is inappropriate;

(3) Established procedures which have drastically shortened the time required to process both contested and uncontested certificate applications; a routine certificate application is now completed in 6 weeks to 2 months;

(4) Encouraged reasonable settlements of outstanding producer rate and certificate proceedings so that all parties could enjoy firm prices at a reasonable level, subject only to the outcome of the area rate proceedings as applied to prices in effect after the conclusion of those proceedings;

(5) Set for immediate disposition those few rate increase proceedings which, if allowed to go into effect, might trigger many new price increases under outstanding certificates.

The results of these various efforts, are, I believe, quite impressive. As indicated in the chart at page 110 of the 1963 annual report, a copy of which is enclosed, field prices of natural gas have practically leveled off in the past 2 years, after a steady period of rapid climb. In the period between July 1, 1961, and January 31, 1964, Commission orders have resulted in refunds by producers of $55 million and prospective reductions of rates amounting to $33 million annually. Moreover, these figures do not reflect the limits of the savings to consumers resulting from other Commission regulatory efforts. Since the development of the area pricing concept hundreds of permanent and temporary certificates have been granted which authorized producers to initiate service at prices below those provided under contracts and applied for in their applications.

The halt in the upward spiral of producer prices has benefited consumers The purchased gas costs of the pipelines have been stabilized and in the past 2½ years the Commission has ordered the pipelines to refund approximately $550 million in cash and to reduce rates for the future. Recent evidence of the success of the Commission's program was the announcement of the Bureau of Labor Statistics on March 31 that the major factor in the reduction in the cost of living index in February of 1964 was the gas service refunds ordered by the Federal Power Commission.

In my opinion the results described above fully justify the statements relating to producer rate regulation contained in our recent annual report. We do not underestimate the magnitude of the task lying ahead, but we are convinced that with continuation of the cooperation we have thus far received from virtually all segments of the natural gas industry, we shall be able to establish and maintain a system of producer regulation which will insure a healthy industry, an industry which provides adequate supplies of natural gas in a manner consistent with the statutory objective of making natural gas available to consumers at the lowest practicable prices.

I hope this information is helpful. Please let me know if you have a further question.

I am sending copies of my reply to all Members of the Congress in view of my understanding that all Members received Mr. Jones' letter.

Mr. Jones' correspondence is returned herewith.

Sincerely,

JOSEPH C. SWIDLER, *Chairman.*

(NOTE.—The following summary from the industry was also received in answer to the above letter:)

The letter of Chairman Swidler of the Federal Power Commission to Representative Beckworth, a copy of which was sent to every Member of Congress, sets forth a number of details which supposedly support his case for what he regards as the progress his Commission has made repecting independent producer regulation.

The only attempt Chairman Swidler makes in answer to the fundamental question—Why has independent producer regulation failed?—is to set forth platitudinous conclusions and new bureaucratic techniques instituted by his Commission. Self-serving declarations, more Government forms and questionnaires, and monstrous new proceedings requiring years to complete have failed to hide the two most crucial conclusions which have developed respecting attempted independent producer regulation: (1) the backlog of Federal Power Commission producer-rate cases continues to increase year after year, and (2) no method has ever been devised by the Federal Power Commission to ascertain "just and reasonable" rates for producers. No amount of verbiage or studies can conceal these facts.

Although Chairman Swidler in his letter sets forth various new regulatory devices promulgated by the Commission, he has not and cannot refute the fact that the Commission has never established a formula for determining just and reasonable rates for producers, nor have they been able to reduce the backlog of producer rate cases. It was 10 years ago, in 1954, when the Supreme Court forced the Federal Power Commission to determine just and reasonable rates for producers. Never has the Chairman admitted that they have not been able to fulfill this Court-imposed statutory duty. He talks about their progress, he talks about new procedures, he talks about what they hope to do, but he has not arrived at a solution. Nor has this been a problem capable of being solved by prior Commissions. For 10 years the case backlog has continued to increase, and for 10 years there has been no formula devised for ascertaining just and reasonable rates. At this point in the attempted regulation of independent producers one cannot blame the Swidler Commission for failing to find the answer, for it is apparent that there is no answer. Chairman Swidler can be blamed for attempting to delude us into believing there is an answer when 10 frustrating years of bureaucratic turmoil tell us otherwise.

Mr. THOMAS. Get over and tell us about the electrical business. You know all about that, too.

Mr. SHIPLEY. Mr. Chairman, before leaving the subject of natural gas, let me say this, if I may.

The efforts of the Federal Power Commission to regulate production of natural gas on an area pricing basis is becoming so complicated and has forced an undeserved burden upon the independent oil and natural gas operators of America. They simply cannot afford the time, personnel, and cost to participate in the lengthy proceedings as they should.

The natural gas producing industry is one of the most competitive segments of the economy. The competitive effort assures the consumers that the oil and natural gas operators must provide effective insurance for active and widespread exploratory and development activity. Unfortunately, with the Federal Power Commission attempting to regulate production of natural gas on an area pricing basis, they are, in fact, forcing many small producers to sell out or merge, rather than remain active in the business of finding and developing oil and gas, which in my opinion is taking away from the free enterprise system, rather than adding to it.

Doing away with the independent producers will also do away with most of the wildcat drilling, which would mean less new gas reserves and which would only result in a disservice to the consuming public through a shortage in supply and increased prices.

Government policy should encourage the widespread search for new gas reserves for this country, rather than hinder.

ELECTRIC POWER INDUSTRY GROWTH

Mr. SWIDLER. On the electrical side, sir, I am frank to say the situation that we found was no better. The Commission had not carried out programs committed to it by statute. There was hardly a pretense of wholesale electric rate regulation. Four people were assigned to this work and could hardly keep track of the filings, and filings did not come in from the major elements in the industry that were subject to jurisdiction.

So far as wholesale rate regulation is concerned, it is practically a brand new activity. You may say this is boasting, but it is the literal fact. Regulation of the electric power industry had collapsed at the time that this Commission took office.

Mr. THOMAS. During the period of that collapse you are talking about, did not the industry perhaps hold its prices down to a figure that is pointed to as a golden period of the industry? It served the growth of the country admirably. Was anybody complaining?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. Tell us about that. That period you are talking about was perhaps one of the most prominent periods of inflation in this country, a great period of growth as well as a great period of inflation. Perhaps the steadiest commodity of all through that period was electric power, was it not, as a general proposition? In some particular localities it may have been out of line, but was not electric power generally considered to be the least inflated commodity pricewise?

Mr. SWIDLER. I think the electric power industry had a very good record; yes, sir. But the price of electric power had gradually crept up. I think this is a trend that has reversed itself in the last couple of years.

JURISDICTION OVER ELECTRIC INDUSTRY

Mr. THOMAS. I noticed you published a list of 192 companies. Are those all the companies you claim jurisdiction over, or what is the purpose of the list?

Mr. SWIDLER. The purpose of the list is to give notice of the companies that on staff study seem to be within the jurisdiction of the Commission. Houston is on the list but has not filed.

Mr. THOMAS. It is generally pointed out—I never saw it in one of your justifications—what part of the total power produced in the United States annually comes under the jurisdiction of the Federal Power Commission? Is it a very small part?

Mr. SWIDLER. Interstate wholesale transactions are about 10 percent of the total industry transactions.

Mr. THOMAS. Ninety percent of the power produced in the country does not come under the jurisdiction of the Federal Power Commission?

Mr. SWIDLER. I would say 90 percent is sold in retail transactions.

Mr. THOMAS. You have no jurisdiction over purely intrastate transactions, do you?

Mr. SWIDLER. No, sir; but I think we would have jurisdiction over many of these companies because they are heavily interconnected and part of interstate power pools. So that while we only perhaps have jurisdiction over 10 percent of the transactions, I think we would probably have a much wider jurisdiction over the companies.

Mr. THOMAS. Is there any demand or pressure upon the Federal Power Commission for you to gradually take jurisdiction over these 90 percent that you have not had jurisdiction over? Where is the demand? Where is the wrong you are going to right by your activities? What is the wrong and how are you going to right it?

Mr. SWIDLER. In the first place, Mr. Chairman——

Mr. THOMAS. What is sacred about Federal regulation? We have it thrown in our faces every day that the Federal Government is moving into industry, taking over. Washington is taking over. Here you are leading the procession. You are hard to carry come November, you know that.

Mr. SWIDLER. Mr. Chairman, the question whether there should be a Federal Power Act is not my question. That is a congressional question.

Mr. THOMAS. You make it your question when you want to enlarge your jurisdiction. You are saying regulation has just gone to pot. You are the savior riding the great white horse, going to save the country. We are asking you: Where are the wrongs? Who has commissioned you to cure the wrongs and what are those wrongs?

Mr. SWIDLER. I am trying to answer your question, sir. I start by saying we did not write the act. We are only commissioned to administer it. The act provides for wholesale rate regulation. It is not for us to repeal it, sir. It is for Congress to repeal it if it wishes to. It is for us to administer it.

If you think there is no need for Federal regulation of the rates of the interstate electric power industry, which is a perfectly respectable point of view, then the Federal Power Act should be revised accordingly. But we took over an act which provides for such regulation.

I personally, Mr. Chairman, believe in that part of the act. I think that the Congress, in providing for wholesale rate regulation by the FPC, enacted a law that is sound.

Mr. THOMAS. How long has the act been in operation?

Mr. SWIDLER. It was passed in 1935, this part of the Federal Power Act. There has been a very uneven administrative history since that time.

ELECTRIC RATES

Mr. THOMAS. For 30 years the country has not gone to pot. Where is the evil that crept in during the prior years?

Mr. SWIDLER. The evil that has crept in is that as a practical matter, wholesale transactions are unregulated and many purchasers of elec-

tricity in interstate commerce are paying excessive and discriminatory rates.

Mr. THOMAS. If they are being robbed and gouged, that is something else.

Mr. SWIDLER. Yes, sir; this is what we are now in the process of looking into.

Mr. THOMAS. What localities are being robbed or gouged or are paying excessive rates? Who is getting the benefit or the money, the illegal money?

Mr. SWIDLER. The power companies, sir.

Mr. THOMAS. Name one. Who is it?

Mr. SWIDLER. I think many of these cases are now in process. I do not want to discuss particular cases. We have a number of cases in which we are now investigating the rates of individual power companies and the fairness of their rate schedules and the fairness of the terms upon which transactions are entered into in interstate commerce.

Mr. THOMAS. You say you do not want to discuss them now. You have prejudged them. You say they are gouging the public, charging excessive rates.

Mr. SWIDLER. I say this as a matter of generality, but I do not want to commit myself on specific situations which are under litigation.

Mr. EVINS. Will the chairman yield?

Mr. THOMAS. Surely.

Mr. EVINS. The chairman is well familiar with the public utilities investigation by the Federal Trade Commission which disclosed the Samuel Insull interests in Chicago, the fact that they had been pirating the consumers. The Department of Justice prosecuted him. He escaped this country in a yacht and went to Italy and never returned.

Following these disclosures, following these pirating practices, the Congress was exercised and passed the Utility Holding Company Act and the Federal regulatory powers for the Commission and the utility industry.

Mr. JONAS. Mr. Chairman, would you yield to me?

Mr. THOMAS. Yes.

STABILITY OF ELECTRIC RATES

Mr. JONAS. Apropos of the response to your question about the stability of utility rates, I would like to read the following into the record, if I may. I am quoting from the Federal Power Commission report of June 30, 1960:

The following table shows average monthly bills for these services—

that is, electric power, current—

since 1935. Based on data from U.S. communities of 2,500 population and more for residential service and 50,000 population and more for commercial and industrial services.

The table shows that in 1935 the average bill for electric service, based upon 250 kilowatt-hours for residential use, was $8.91. By 1960 it had gone down to $7.44.

The average bill for electric service for commercial use, based on 30 kilowatts, 6,000 kilowatt-hours, was $182.23 in 1935, and by 1960 it had gone down to $165.12.

For industrial use per thousand kilowatts, 200,000 kilowatt-hours, it was $3,081 in 1935 and only $3,281 in 1960.

I wish I had the information available to compare the increases in cost of automobiles, groceries, clothing, and everything else in the United States. The only thing I know that has gone down during that period or remained constant has been the cost of electricity for home and commercial consumption. Somebody was doing a pretty good job of regulation if by regulation you mean that your purpose is to hold down the costs to the ultimate consumer.

Mr. EVINS. Will the gentleman yield?

Mr. JONAS. Yes.

Mr. EVINS. I understand the chairman indicated there are several companies whose rates have gone up. Just because a few have held down their rates there might have been an example of a few public power agencies, citing specifically the Tennessee Valley Authority, which was an example of a yardstick measuring cost of electricity, which has kept the rates down all over the country for the benefit of the consumers.

Mr. JONAS. We will not argue the TVA at this point.

Mr. EVINS. Will the Chairman of the Commission cite some cases for the record of utility rates that have gone up in the last few years? My understanding is that rates have been going up a great deal in New England and in other areas far distant from the publicly owned utilities. All utilities are monopolistic by nature.

(The information supplied follows:)

MAJOR WHOLESALE RATE INCREASES 1960 TO DATE

The following list represents total annual amounts of major wholesale rate increases filed with the Federal Power Commission for companies listed. Each figure represents the amount per year by which the cost of power has been increased to one or more buyers at wholesale for resale. The last two increases listed were suspended by the Commission and the increased rates are being collected subject to possible refund at the conclusion of the proceedings to determine whether the increases are justified. Increases in the cost of electricity at wholesale are usually reflected in higher electric bills at retail.

Companies	*Amount*
Ohio Edison Co	$153,900
New England Power Co	1,545,000
Pacific Gas & Electric Co	216,400
Do	246,600
Do	270,500
Wisconsin-Michigan Power Co	233,000
Utah Power & Light Co	136,000

Examples of retail electric rate increases, calendar year 1963 (compiled from published sources)

Companies	Annual rate increase (revenue)	Remarks
Utah Power & Light Co	$2,466,087	5.96 percent net income increase $1,336,341.
Idaho Power Co	2,500,000	7.5 percent general rate increase. Net income increases $1,100,000 annually.
Sierra Pacific Power Co., Nevada	1,059,100	Systemwide increases averaging 8.7 percent.
Puget Sound Power & Light Co	2,200,000	1.5 percent across-board increase.

Mr. JONAS. That may be so. The cost of telephone service has gone up, the cost of Western Union service has gone up. Everything has gone up, but power has gone up less than anything according to the record. I do not know who is responsible.

Mr. EVINS. I placed in the record recently—I will try to find it and put it in this record if I am given permission to do so—the profits and dividends and stock splits of utilities over the past decade. They have been larger and larger than ever before. Their profits have been greater. Their stock splits have been more numerous, and their dividends have been greater. Even with their low-cost rates, they are still not suffering, but making handsome profits. They are still making a profit—greater than ever before. Perhaps they are following the Ford industry plan of volume sales.

Mr. WYMAN. Mr. Chairman.

Mr. THOMAS. Mr. Wyman.

Mr. WYMAN. May I follow up on one or two of the lines of questioning?

Mr. THOMAS. Surely.

Mr. WYMAN. I would like to say this. I served as attorney general of New Hampshire for a long time and had to participate in proceedings before the Public Utility Commission in New Hampshire. I know a rate base governs the rate of return and that rate of return is usually a percentage. Depending upon what is included in the rate base, it is a pretty steady factor for your utilities. The opportunity to gouge the public is regulated by State utility commissions or in the case of interstate commerce by the Federal Power Commission, as I understand it.

The chairman asked you about companies that have been gouging or companies that you felt had practices that might be illustrative of the sort of thing you conceived it the function of the Power Commission to properly regulate.

I would like to ask you now for the names of companies against which proceedings, either administrative or judicial, are pending by the Federal Power Commission or to which the Federal Power Commission is a party.

ELECTRIC RATE PROCEEDINGS

Mr. SWIDLER. I will insert in the record, Mr. Wyman, a list of all proceedings involving rates of electric power companies which are now underway.

Mr. WYMAN. Unless it would be altogether too onerous, would you also insert in the record with respect to the names of companies involved a brief summary of the gist of the complaint against each company in each instance. I do not mean a five-page thing, but I mean overcharging or including in the rate-base things which are not allowable, or what have you.

Mr. THOMAS. A short description of the nature of the action.

Mr. WYMAN. That is right.

Mr. SWIDLER. We will provide a capsule summary of the case.

(The information supplied follows:)

FORMAL ELECTRIC CASES

Name of utility	*Description of case*
Southern California Edison	Complaint by city of Colton, Calif. that company was not charging FPC filed rate. Oral argument held before U.S. Supreme Court on Jan. 14, 1964.
Nevada Power Co	Suspension of proposed rate increase of $26,000 per year to Colorado River Commission of Nevada and California-Pacific Utilities Co. Expanded to include investigation of sale to Southern California Edison Co. for resale in Death Valley area.
Southern California Edison	Suspension of proposed increase of $131,000 per year to city of Colton, Calif.
New England Power Co	Complaint by Municipal Light Department of town of Shrewsbury, Mass., that New England Power will not serve it directly and that it is, therefore, required to take service from Massachusetts Electric Co. (a corporate affiliate of New England Power) at a higher rate.
Wisconsin-Michigan Power Co	Suspension of proposed rate increase of $233,000 per year to 7 municipalities and 2 private power companies.
Southwestern Public Service Co	Suspension of proposed rate decrease of $79,000 per year to 12 cooperatives and investigation of all of the company's wholesale rates.
Carolina Power & Light Co	Company ordered to show cause why certain wholesale sales are not subject to FPC jurisdiction.
Indiana & Michigan Electric Co	Do.
Arkansas Power & Light Co	Do.
Georgia Power Co	Company ordered to show cause why dual rates and restrictive provisions in its wholesale rate schedules are not unjust and unreasonable.
Potomac Edison Co	Investigation of company's wholesale rates on Commission's own motion.
Mississippi Power Co	Company ordered to show cause why certain provisions of its filed rate schedules are not unjust and unreasonable.
Dairyland Power Cooperative, Minnkota Power Cooperative, South Central Rural Electric Cooperative.	Each cooperative ordered to show cause why it should not be required to comply with the requirements of the Federal Power Act.
Eastern Shore Public Service Co. of Maryland.	Complaint by St. Michaels Utilities Commission that the company is charging discriminating rates.
Do	Complaint by Stockton Light & Power Co. that the company is charging excessive and discriminating rates.
Georgia Power Co	Complaint by Crisp County Power Commission seeking an order requiring the company to interconnect with Crisp County and enter into an agreement for the exchange of power.

FORMAL ELECTRIC CASES

Name of utility	*Description of case*
Duke Power Co	Company ordered to show cause why certain restrictive provisions in its wholesale rate schedules are not unjust and unreasonable.
Cincinnati Gas & Electric Co	Investigation of all of the company's wholesale rates on Commission's own motion. Company also ordered to show cause why certain sales are not subject to FPC jurisdiction.
Utah Power & Light Co	Suspension of proposed rate increase of $136,000 and investigation of all of the company's wholesale rates.
Delaware Power & Light Co., Eastern Shore Public Service Co. of Maryland, Eastern Shore Public Service Co. of Virginia	Investigation of all of these companies' wholesale rate schedules and contracts.
Northern States Power Co. (Minn.)	Investigation of all of the company's wholesale rates on the Commission's own motion.

Mr. WYMAN. As I understand it, they cannot get away with very much in the way of overcharging in this field. It might be a half of 1 percent or it might be the inclusion of a plant as part of the rate base or a claim of a valuation placed on it which is too high, but they cannot get away with the kind of gouging practices that perhaps might be consistent with an unregulated industry. Is that not so?

Mr. SWIDLER. Mr. Wyman, I would like to make clear that when I speak to most audiences, I take occasion to express my pride in the two industries that we regulate. I think that both of them have done a good job. It is not my position that this performance started——

Mr. THOMAS. When they are doing a good job, it is a good thing for the country those regulations broke down which you were decrying a while ago.

Mr. SWIDLER. It does not seem that those two things follow. They can do a good job overall and there can still be need for regulation to help them do better, to eliminate inequities, to eliminate instances of high rates, to spur them to even greater efforts at integration of power systems and increased efficiency.

Mr. THOMAS. You mean papa knows best about the regulations.

Mr. EVINS. The chairman would not propose to do away with the police force.

Mr. BOLAND. I hate to think what would happen if they were not regulated.

Mr. WYMAN. Will the chairman yield?

Mr. THOMAS. Mr. Wyman.

Mr. WYMAN. What percentage of the segment of this industry nationwide that you regulate, that is subject to your jurisdiction, what percentage of it is affected by complaints of the nature that have generally been described here? How much of the industry is engaged, even on the basis of contentions by the FPC, in this kind of practice?

Mr. SWIDLER. I have made clear, Mr. Wyman, that the interstate wholesale transactions only cover about 10 percent of the industry.

I am sure that the cases that I mention are a fairly small part of that 10 percent. So that I am not speaking quantitatively of abuses of large extent.

What has happened, Mr. Chairman and members of the committee, is that in the absence of regulation in the past, there has developed in the industry a sort of law of the jungle in wholesale transactions where the treatment a purchaser receives in these transactions depends upon his ability to protect himself and where regulation has not played the role of assuring equity and fairness in interstate dealings.

Mr. WYMAN. With regard to these companies that are subject to your regulation, is the cost of the power transmitted in interstate commerce included in the rate base in regulation of utilities selling intrastate in some States?

Mr. SWIDLER. Usually the same plant is used for both interstate and intrastate transactions, so far as generation and transmission are concerned. Of course, the distribution plant is localized.

Mr. EVINS. Would the chairman yield?

Mr. THOMAS. Mr. Evins.

ELECTRIC POWER SUPPLIERS SUBJECT TO FPC JURISDICTION

Mr. EVINS. Did I understand Chairman Swidler to testify earlier that you had published a list of utilities that were supposed to file subject to your jurisdiction and that a number of these utilities have not filed information with the Commission as required by law?

Mr. SWIDLER. Yes, sir; that is the fact. We have published a list of, I think, 189 companies. I would be glad to provide it for the record.

Mr. EVINS. Without objection, I would like to have it provided for the record.

(The information supplied follows:)

LIST OF ELECTRIC POWER SUPPLIERS WITH ANNUAL OPERATING REVENUES OF $2,500,000 OR MORE CLASSIFIED AS PUBLIC UTILITIES UNDER THE FEDERAL POWER ACT, AS OF JANUARY 1963

FOREWORD

This pamphlet is being published to give the general public and the industry a list of the electric utility systems that are classified as "public utilities" for purposes of the Federal Power Act, as of January 1, 1963.

The "public utility" classification is assigned herein to electric power suppliers which, on the basis of available information, are the owners or operators of facilities for the transmission of electric energy in interstate commerce or for the sale at wholesale for resale of electric energy in interstate commerce within the meaning of the Federal Power Act. This list includes only those electric power suppliers having annual electric operating revenues of $2,500,000 or more. "Public utilities" having annual electric operating revenues of less than $2,500,000 will be included in subsequent editions of this pamphlet. Omission of any suppliers from the list does not mean that such suppliers are not subject to Commission jurisdiction but only that they have not as yet been classified as "public utilities" for purposes of the Federal Power Act. Conversely, the Commission recognizes the legal right of electric power suppliers classified as public utilities herein to challenge that classification in proceedings before the Commission by or against such suppliers.

It is contemplated that revisions of this pamphlet will be published annually, or at more frequent intervals if the extent of the changed listings should warrant. Facts bearing on the completeness and accuracy of the listings will be considered in connection with each revision.

The Federal Power Act provides that the rates and charges for the sale of electric energy at wholesale of a "public utility" are subject to the jurisdiction of the Federal Power Commission; Commission approval is required for the disposition of any of their facilities subject to the jurisdiction of the Commission having a value in excess of $50,000; they are also required to obtain Commission approval of a merger or consolidation of their facilities with those of any other electric system; and they must maintain their accounts in accordance with the Commission's accounting requirements. For a complete statement of these and other requirements of the Federal Power Act applicable to public utilities, reference must be made to the statute.

The Commission has not decided the question of its jurisdiction over cooperatives and for that reason cooperatives that may be public utilities are not included in the list.

Name of power supplier	*Operating in State(s)*
Alabama Power Co	Alabama.
Appalachian Power Co	Tennessee, Virginia, and West Virginia.
Arizona Public Service Co	Arizona.
Arkansas-Missouri Power Co	Arkansas and Missouri.
Arkansas Power & Light Co	Arkansas, Louisiana, Missouri, and Tennessee.
Atlantic City Electric Co	New Jersey.
Baltimore Gas & Electric Co	Maryland.
Bangor Hydro-Electric Co	Maine.
Black Hills Power & Light Co	South Dakota and Wyoming.
Blackstone Valley Gas & Electric Co	Rhode Island.
Boston Edison Co	Massachusetts.
Brockton Edison Co	Do.
California Electric Power Co	Arizona, California, and Nevada.
California Pacific Utilities Co	Arizona, California, Idaho, Nevada, Oregon, Utah, and Wyoming.
Cambridge Electric Light Co	Massachusetts.
Cape & Vineyard Electric Co	Do.
Carolina Power & Light Co	North Carolina and South Carolina.
Central Hudson Gas & Electric Corp	New York.
Central Illinois Electric & Gas Co	Illinois.
Central Illinois Light Co	Do.
Central Illinois Public Service Co	Do.
Central Kansas Power Co., the	Kansas.
Central Louisiana Electric Co., Inc	Louisiana.
Central Maine Power Co	Maine.
Central Power & Light Co	Texas.
Central Vermont Public Service Corp	New Hampshire, New York, and Vermont.
Cheyenne Light, Fuel & Power Co	Wyoming.
Cincinnati Gas & Electric Co., the	Ohio.
Citizens Utilities Co	Arizona, Idaho, and Vermont.
Cleveland Electric Illuminating Co., the	Ohio.
Columbus & Southern Ohio Electric Co	Do.
Commonwealth Edison Co	Illinois.
Commonwealth Edison Co. of Indiana, Inc.	Indiana.
Community Public Service Co	New Mexico and Texas.
Connecticut Light & Power Co., the	Connecticut.
Conowingo Power Co	Maryland.
Consolidated Edison Co. of New York, Inc.	New York.
Consolidated Water Power Co	Wisconsin.
Consumers Power Co	Michigan.
Dallas Power & Light Co	Texas.
Dayton Power & Light Co., the	Ohio.
Delaware Power & Light Co	Delaware.
Detroit Edison Co., the	Michigan.
Duke Power Co	North Carolina and South Carolina.
Duquesne Light Co	Pennsylvania.

Name of power supplier	*Operating in State(s)*
Eastern Shore Public Service Co. of Maryland, the.	Maryland.
Edison Sault Electric Co	Michigan.
El Paso Electric Co	New Mexico and Texas.
Electric Energy, Inc	Illinois and Kentucky.
Empire District Electric Co., the	Arkansas, Kansas, Missouri, and Oklahoma.
Fall River Electric Light Co	Massachusetts.
Fitchburg Gas & Electric Light Co	Do.
Florida Power Corp	Florida.
Florida Power & Light Co	Do.
Georgia Power Co	Alabama, Georgia, South Carolina, and Tennessee.
Green Mountain Power Corp	Vermont.
Gulf Power Co	Florida.
Gulf States Utilities Co	Louisiana and Texas.
Hartford Electric Light Co., the	Connecticut.
Holyoke Power & Electric Co	Massachusetts.
Holyoke Water Power Co	Do.
Home Light and Power Co	Colorado.
Houston Lighting & Power Co	Texas.
Idaho Power Co	Idaho, Montana, Nevada, and Oregon.
Illinois Power Co	Illinois.
Indiana-Kentucky Electric Corp	Indiana.
Indiana & Michigan Electric Co	Indiana and Michigan.
Indianapolis Power & Light Co	Indiana.
Interstate Power Co	Illinois, Iowa, Minnesota, and South Dakota.
Iowa Electric Light & Power Co	Iowa.
Iowa-Illinois Gas & Electric Co	Illinois and Iowa.
Iowa Power & Light Co	Iowa.
Iowa Public Service Co	Iowa and South Dakota.
Iowa Southern Utilities Co	Iowa.
Jersey Central Power & Light Co	New Jersey.
Kansas City Power & Light Co	Kansas and Missouri.
Kansas Gas & Electric Co	Kansas.
Kansas Power & Light Co., the	Do.
Kentucky Power Co	Kentucky.
Kentucky Utilities Co	Kentucky and Tennessee.
Kingsport Utilities, Inc	Tennessee.
Lake Superior District Power Co	Michigan and Wisconsin.
Long Island Lighting Co	New York.
Louisiana Power & Light Co	Louisiana.
Louisville Gas & Electric Co	Kentucky.
Madison Gas & Electric Co	Wisconsin.
Maine Public Service Co	Maine.
Marietta Electric Co., the	Ohio.
Massachusetts Electric Co	Massachusetts.
Metropolitan Edison Co	Pennsylvania.
Michigan Gas & Electric Co	Michigan.
Minnesota Power & Light Co	Minnesota.
Mississippi Power Co	Mississippi.
Mississippi Power & Light Co	Do.
Missouri Edison Co	Missouri.
Missouri Power & Light Co	Do.
Missouri Public Service Co	Do.
Missouri Utilities Co	Do.
Monongahela Power Co	West Virginia.
Montana-Dakota Utilities Co	Montana, North Dakota, South Dakota, Wyoming, Province of Saskatchewan, and Canada.
Montana Power Co., the	Idaho and Montana.
Montaup Electric Co	Massachusetts.
Nantahala Power & Light Co	North Carolina.
Narragansett Electric Co., the	Rhode Island.

Name of power supplier	*Operating in State(s)*
Nevada Power Co	Nevada.
New Bedford Gas & Edison Light Co	Massachusetts.
New England Power Co	Massachusetts, New Hampshire, and Vermont.
New Hampshire Electric Co	New Hampshire.
New Jersey Power & Light Co	New Jersey.
New Mexico Electric Service Co	New Mexico.
New Orleans Public Service, Inc	Louisiana.
New York State Electric & Gas Corp	New York.
Newport Electric Corp	Rhode Island.
Niagara Mohawk Power Corp	New York.
Northern Indiana Public Service Co	Indiana.
Northern States Power Co. (Minnesota)	Minnesota, North Dakota, and South Dakota.
Northern States Power Co. (Wisconsin)	Wisconsin.
Northern Virginia Power Co	Virginia.
Northwestern Public Service Co	South Dakota.
Ohio Edison Co	Ohio.
Ohio Power Co	Ohio and West Virginia.
Ohio Valley Electric Corp	Kentucky and Ohio.
Oklahoma Gas & Electric Co	Arkansas and Oklahoma.
Old Dominion Power Co	Virginia.
Orange & Rockland Utilities, Inc	New York.
Otter Tail Power Co	Minnesota, North Dakota, and South Dakota.
Pacific Gas & Electric Co	California.
Pacific Power & Light Co	California, Idaho, Montana, Oregon, Washington, and Wyoming.
Patchogue Electric Light Co., the	New York.
Pennsylvania Electric Co	Maryland, New York, and Pennsylvania.
Pennsylvania Power Co	Pennsylvania.
Pennsylvania Power & Light Co	Do.
Philadelphia Electric Co	Do.
Plymouth County Electric Co	Massachusetts.
Portland General Electric Co	Oregon.
Potomac Edison Co., the	Maryland.
Potomac Electric Power Co	District of Columbia, Maryland, and Virginia.
Potomac Light & Power Co	West Virginia.
Public Service Co. of Colorado	Colorado.
Public Service Co. of Indiana, Inc	Indiana.
Public Service Co. of New Hampshire	Maine, New Hampshire, and Vermont.
Public Service Co. of New Mexico	New Mexico.
Public Service Co. of Oklahoma	Oklahoma.
Public Service Electric & Gas Co	New Jersey.
Puget Sound Power & Light Co	Washington.
Rochester Gas & Electric Corp	New York.
Rockland Electric Co	New Jersey.
Safe Harbor Water Power Corp	Pennsylvania.
St. Joseph Light & Power Co	Missouri.
San Diego Gas & Electric Co	California.
Savannah Electric & Power Co	Georgia.
Sho-Me Power Corp	Missouri.
Sierra Pacific Power Co	California and Nevada.
South Carolina Electric & Gas Co	Georgia and South Carolina.
South Carolina Generating Co	South Carolina.
South Penn Power Co	Pennsylvania.
Southern California Edison Co	California and Nevada.
Southern Electric Generating Co	Alabama.
Southern Indiana Gas & Electric Co	Indiana.
Southwestern Electric Power Co	Arkansas, Louisiana, Oklahoma, and Texas.
Southwestern Electric Service Co	Texas.
Southwestern Public Service Co	Kansas, New Mexico, Oklahoma, and Texas.

Name of power supplier	*Operating in State(s)*
Superior Water, Light & Power Co	Wisconsin.
Susquehanna Electric Co., the	Maryland.
Tampa Electric Co	Florida.
Tapoco, Inc	North Carolina and Tennessee.
Texas Electric Service Co	Texas.
Texas Power & Light Co	Do.
Toledo Edison Co., the	Ohio.
Tucson Gas, Electric Light & Power Co., the.	Arizona.
Union Electric Co	Illinois, Iowa, and Missouri.
Union Light, Heat & Power Co., the	Kentucky.
United Gas Improvement Co., the	Pennsylvania.
United Illuminating Co., the	Connecticut.
Utah Power & Light Co	Idaho, Utah, and Wyoming.
Virginia Electric & Power Co	North Carolina, Virginia, and West Virginia.
Washington Water Power Co., the	Idaho, Montana, and Washington.
West Penn Power Co	Pennsylvania and West Virginia.
West Texas Utilities Co	Texas.
Western Colorado Power Co., the	Colorado.
Western Light & Telephone Co., Inc	Kansas.
Western Massachusetts Electric Co	Massachusetts.
Western Power & Gas Co	Colorado.
Wheeling Electric Co	West Virginia.
Wisconsin Electric Power Co	Wisconsin.
Wisconsin Michigan Power Co	Michigan and Wisconsin.
Wisconsin Power and Light Co	Wisconsin.
Wisconsin Public Service Corp	Michigan and Wisconsin.
Yankee Atomic Electric Co	Massachusetts.

ELECTRIC POWER COMPANIES NOT FILED WITH FPC

Mr. EVINS. Would you point out names of some who have not filed?

Mr. SWIDLER. I hesitate because they may have defenses. I do not wish to put the finger on them.

Mr. EVINS. Let me see the list, then. I will ask you. Alabama Power Co. Have they filed with you?

Mr. SWIDLER. Yes, sir, some filings but not their rates to municipals and cooperatives.

Mr. EVINS. Baltimore Gas & Electric?

Mr. SWIDLER. Yes.

Mr. EVINS. California Pacific Utility?

Mr. SWIDLER. Yes.

Mr. EVINS. Commonwealth Edison of Indiana?

Mr. SWIDLER. Chicago.

Mr. EVINS. Indiana. You have several Commonwealth Edisons.

Mr. SWIDLER. I think the answer is "Yes."

Mr. EVINS. Florida Power Corp.?

Mr. SWIDLER. I think the answer to that is "No."

Mr. EVINS. This is the first one on your list that has not filed. Coming down alphabetically, Missouri Edison Co.?

Mr. SWIDLER. No.

Mr. EVINS. Texas Power & Light?

Mr. SWIDLER. Texas Power & Light has not. I do not think any Texas companies have filed except Southwestern Public Service Co. and Gulf States and a few filings from Southwestern Electric Power and El Paso Electric Co.

Another group of companies that think that they have special defenses are the Michigan companies. Detroit Edison and the Consumers Power Co. of Michigan have not filed.

Mr. EVINS. Houston Lighting & Power Co.?

Mr. SWIDLER. No, sir.

Mr. EVINS. Does the Commission have information as to the rates of this company, how many times they have split stocks, how many times they have declared dividends, what their profit situation is?

Mr. SWIDLER. No, sir; I do not think we have that.

Mr. EVINS. You would not have that information unless they provided you with filings?

Mr. SWIDLER. That is right. We wouldn't have all of it.

STATUTORY FILING REQUIREMENTS

Mr. EVINS. Would the General Counsel of the Commission read into the record at this point the section of the law which requires these filings.

Mr. SOLOMON. Section 205 of the Federal Power Act covers this matter. Section 205 (a) and (b) provides that the rates and charges of all public utilities for or in connection with the transmission or sale of electric energy, subject to the jurisdiction of the Commission, shall be just and reasonable and nondiscriminatory.

Section 205(c) requires that these rates be filed with the Commission.

Section 201 determines what is subject to our jurisdiction. It provides that the Commission—reading from 201(b):

> The Commission shall have jurisdiction over all facilities for such transmission or sale of electric energy but shall not have jurisdiction, except as specifically provided in this Part and the Part next following, over facilities used for the generation of electric energy or over facilities used in local distribution or only for transmission of electric energy in intrastate commerce or over facilities for transmission of electric energy consumed wholly by the transmitter.

In other words, the test of whether a company is a public utility is whether it owns or operates facilities used in connection with interstate sale or transmission of electric energy. If it is a public utility, then it is subject to our accounting regulations and a number of other regulations.

Mr. EVINS. The Commission would be unable to determine whether rates are just and fair unless data was supplied to the Commission through the filing procedure. This is a prerequisite to the first determination; is that not correct?

Mr. SOLOMON. That is right. There is, of course, in all of these cases a preliminary question of jurisdiction over both the utility generally and the specific rate.

Mr. EVINS. If the company did not have anything to hide, they would have no hesitancy in voluntarily giving you the information which the Government requested.

Mr. THOMAS. Are there any further questions?

JURISDICTION OVER ELECTRIC COMPANIES

Mr. WYMAN. I cannot help but just ask Mr. Swidler whether or not it is not perhaps a natural reluctance; is it not understandable that there might be a natural reluctance to disclose the internal financial management and arrangements and stock splits and ownership, et cetera, of a company unless it was properly subject to regulation? There is such a thing as a right of business privacy in the absence of power to regulate which is an understandable and not particularly reprehensible business practice. Would you not agree?

Mr. SWIDLER. I assume that a company that did not think it was subject to regulation would not volunteer for it. I have no criticism for companies which think that their circumstances are such as not to bring them within the act. This is something that will have to be tested in formal proceedings.

Nevertheless, as Mr. Evins said, we cannot know the extent of the problem until we determine the jurisdictional questions and until these companies file. When they file and when we have had an opportunity to survey their transactions at wholesale, their accounts, then we will know the extent to which they raise problems under our statute.

The starting point to know whether these companies are observing the requirements of the act is to determine the question of jurisdiction and to bring them within our statute if they belong there, Mr. Wyman. This has never been done before in a comprehensive manner.

Mr. EVINS. I might ask this. In good faith, many utilities, when called upon for information, supply it, then the Commission may very well determine they do not have jurisdiction and the rates are not unfair or unjust and the case is closed; is that right?

Mr. SWIDLER. Yes, sir.

ELECTRIC COMPANY DIVIDENDS

Mr. EVINS. Mr. Chairman, a while ago Chairman Swidler gave us an overall volume figure. I referred to the profit and dividend structure of the electric power companies. I have now been provided with some additional material from my files on this matter. The material which I have relates to the electric power industry, profits and dividends.

This report here shows that the net profits and dividends of private power companies are soaring to new heights. Some of the advertisements that they have been running would indicate that private power is in great danger, or suffering from competition, but nothing could be further from the truth. A recent story shows the actual profits and dividends over a 25-year period. I want to refer to a few of them on the border of the TVA area and then the national average. Middle South Utilities in 1937 had net profits of $4.3 million; in 1962, 25 years later they had net profits of $28 million or a percentage increase of 551-percent profit increase. The Southern Utilities Co., in 1937, had net profits of $9.6 million; in 1962, their net profits were $52.3 million or a 445-percent profit increase.

Then I can cite another one, Kentucky Utilities, which has a profit increase of 709 percent. These are companies on the perimeter, on the outside of the TVA. Here are the figures for the total private power industry of the Nation: In 1937, their net profits were $500 million; in 1962 their net profits were $2,100 million, or an increase of 320 percent.

Whereas the national private power profits all over the Nation increased 320 percent, those on the perimeter of the TVA increased 494 percent. This shows that they are certainly not suffering. To the contrary, their profits are soaring to new heights.

The next table deals with common dividends. The same companies, Middle South Utilities declared dividends in 1937 of $500,000; 1962, they declared dividends of $18,200,000, or a 3,540 percent increase in dividends alone. The Southern Co. in 1937 declared common dividends of $900,000 and in 1962 declared dividends of $35,-300,000, or a percentage increase of 3,882. The average percentage increase in common dividends was 4,050 percent by these companies on the perimeter of the TVA.

For the private power industry as a whole in 1937 there were $300 million in common dividends declared. In 1962, there were $1,300 million in stock dividends declared, or a percentage increase of 333 percent. This is for the Nation as a whole—a 333 percent stock dividend increase as against 4,050 on the periphery of the TVA territory elsewhere. I would like for all of these tables and this statement to be placed in the record.

(The information referred to follows:)

NET PROFITS AND DIVIDENDS OF PRIVATE POWER COMPANIES SOAR TO NEW HEIGHTS

Extension of Remarks of Hon. Joe L. Evins, of Tennessee, in the House of Representatives, Monday, September 30, 1963

Mr. EVINS. Mr. Speaker, the net profits and dividends of the private power companies are soaring to new heights. The "combined" ads of "unfair competition" by the public power companies, notwithstanding and to the contrary.

In these advertisements, the impression is given that private power is in great danger from public power operations.

Nothing could be further from the truth. A recent story in Power Association News points out the folly in these contentions and shows quite clearly the increased profits and increased dividends the private power companies are making.

The story shows that in the 25-year period from 1937 through 1962 the net profits of the Nation's private power industry increased by 320 percent. However, the net profits of the nine private power companies that border on the TVA service area increased their profits by 494 percent over the 25-year period—this net profit increase is more than 1½ times as much as the national average.

The dividends paid on common stock of the private power companies bordering the TVA area also show a greater increase than for the national private power dividend average. While the dividends paid by the Nation's private power companies rose by 333 percent over the 25-year period, the common stock dividends paid by the nine power companies which are neighbors of TVA went up by the astonishing amount of 4,050 percent.

Mr. Speaker, the power companies in fact are doing better than ever and those companies adjacent to the Tennessee Valley area are doing even better than the other companies. As the story points out perhaps these high price advertisements are really aimed at taking the customers' mind off how much profit the private power companies are really making from rate paying customers.

Mr. Speaker, under unanimous consent, I include this very informative article from the September 1963 issue of the Power Association News in the Appendix of the Record.

(The article follows:)

PROFITABLE POWER COMPANIES

If you believed the national advertising of the private power companies, you would be certain that public and co-op power was about to drive the private companies out of business.

Private power complains that public power is "unfair competition," and suggests that the Nation's private power companies are in great danger. But a recent analysis by the Electric Consumers Information Committee has revealed that private power companies in the Southeast "have not only survived this 'dangerous force within,' as an industry propaganda ad put it recently, but they and their stockholders have fared better financially than the private power industry as a whole."

In the 25-year period from 1937 through 1962, the net profits of the Nation's private power industry increased by 320 percent; but the net profits of nine of TVA's neighbors—Middle South Utilities, Southern Co., and Kentucky Utilities—went up to 494 percent, more than 1½ times as much.

On common stock dividends, the record is much more striking. Common dividends paid by the Nation's private power companies rose by 333 percent in the 25-year period; but the common stock dividends paid by these nine power company neighbors of TVA went up by whopping 4,050 percent, more than 10 times as much.

Earlier this year, Time magazine, commenting on TVA's 30th birthday, said: "Despite TVA's gigantic operations there is no evidence that nearby private utilities have been hurt. * * * Competitively lowering rates, the private companies have kept them low—yet the latest studies show that their common stock earnings are twice as high as the U.S. average."

Basically, the facts are these:

1. Competition by example from TVA and its distributors has helped the private power companies around the TVA area * * * stimulating them to lower rates, and through increased efficiency and higher sales of electricity, to record-breaking profits.

2. The public power systems have led the way for the private companies, instituting the low rate-high use policy which the private companies previously had been fearful of. Once the private companies began to lower their own rates, they found that this was a good way to greater electrical growth. In other words, the greatest period of power company profits came not when the companies followed their long time conservative approach but when they adopted the new concept advanced by public power.

Here are the tables that show the remarkable record of profit progress made by these private power companies in the 1937–62 period:

Net profits

Company	1937	1962	Percent increase
Middle South Utilities	$4,300,000	$28,000,000	551
Southern Co.	9,600,000	52,300,000	445
Kentucky Utilities	1,100,000	8,900,000	709
Total	15,000,000	89,200,000	494
Total, private power industry	500,000,000	2,100,0001000	320

Common dividends

Company	1937	1962	Percent increase
Middle South Utilities	$500,000	$18,200,000	3,540
Southern Co.	900,000	35,300,000	3,882
Kentucky Utilities	None	4,600,000	
Total	1,400,000	58,100,000	4,050
Total, private power industry	300,000,000	1,300,000,000	333

The Southern Co. is a holding company, including the Georgia Power Co., Alabama Power Co., Gulf Power Co., and Mississippi Power Co.; the Middle South Utilities is also a holding company, including Arkansas Power & Light, Louisiana Power & Light, Mississippi Power & Light, and New Orleans Public Service.

Here, in quick summary, is the record of the Nation's private power companies for the 1937–62 period:

Net profits—up from $0.5 billion in 1937 to $2.1 billion in 1962, an increase of 320 percent; common stock dividends—up from $0.3 billion in 1937 to $1.3 billion in 1962, an increase of 333 percent; total assets—up from $15.3 billion in 1937 to $49.6 billion in 1962, an increase of 224 percent; and net utility plant—up from $12.4 billion in 1937 to $44.9 billion in 1962, an increase of 262 percent.

The study by Electric Consumers Information Committee also shows that private power companies have already set new records in the first half of 1963—new highs for profits, dividends, and revenues. Nationally, electric revenues for the first half of 1963 were up 5½ percent; net profits were up nearly 6.5 percent; and common stock dividends declared were up 5.3 percent over the first half of 1962.

To any objective observer, it is obvious that the private power companies are doing better than ever. The year 1962 was a record year; the first half of 1963 saw even higher records set.

Frankly, it's difficult to work up a tear for the "poor" power companies. Maybe they spend so much money on negative propaganda advertising—telling people how much they're threatened by public power—to take their customers' minds off how much money the companies are making. In any case, the facts speak for themselves—the power companies are doing better than ever * * * and those companies adjacent to sizable public power areas are doing better than the rest.

Mr. JONAS. Will you yield?

Mr. EVINS. Yes.

RELATION OF INVESTMENT TO DIVIDENDS

Mr. JONAS. That is meaningless unless you know how much capital investment increased over that period.

Mr. EVINS. It shows a picture that they are not suffering.

Mr. JONAS. Wouldn't you agree that the mere recital of total amounts of dividends over such a period of time, to have any meaning whatsoever, you would have to know how much increase there had been in capital investment?

Mr. EVINS. I think those are facts that certainly should be taken into consideration.

Mr. JONAS. Is it true, since you have all that information, that there has been, over that same period, a tremendous increase in capital investment of these utilities?

Mr. EVINS. I would think so.

Mr. JONAS. For example, I do not think it makes too meaningful a statement to say that American Telephone & Telegraph earned x dollars in 1937 and then paid a billion dollars out in dividends in 1963, because you have to know how much they increased their investment during that period of time. Maybe a billion dollars in dividends in 1963, based on the amount of capital investment, was a smaller return than the lower dividend in 1937.

Mr. EVINS. The net profit increase of 320 percent over this period and the 333 percent for the Nation as a whole is not to be discounted. I think that some of these full page ads that they are running, screaming about their hardships and their difficulties, with a token of competition, is designed to masquerade and to cover up and to take the customer's mind off of the profits and the dividends.

Mr. THOMAS. Any further questions, gentlemen?

VOLUNTARY COMPLIANCE WITH FEDERAL POWER ACT

Mr. BOLAND. Are a number of these cases in the list you were reading from not subject to FPC jurisdiction? Are some willing to file although they are not subject to the act?

Mr. SWIDLER. We would not assert any authority over a company that we did not think was subject to our statute.

Mr. BOLAND. Have there been any voluntary filings?

Mr. SWIDLER. Many, many voluntary filings. We have had filings which in 1 year I think tripled those of the previous year. We are only beginning now to get compliance with the statute. This is the irony of the chairman's question. What are you doing? We are administering our statute that was not administered before, Mr. Chairman.

DEGREE OF REGULATION

Mr. THOMAS. May I interrupt? As to your jurisdiction—I speak for myself and I imagine for most of the members here—we all are for regulation, we know the value of it. I, for one, just do not want you to overregulate anybody.

Mr. SWIDLER. No, sir. I agree.

Mr. THOMAS. We have that thrown at us, we on this side of the table. We have to go to the people every 2 years. You never have to go to them. We have to carry you.

Mr. SWIDLER. Mr. Chairman, you do not have——

Mr. THOMAS. Wait until I get through. It is said one of your sins is that you are overregulating. Whether it is true or not in all instances I do not know. We will have a pretty good idea before we get through today. As far as I am concerned, I believe in a reasonable amount of regulation.

Specifically as far as your jurisdiction is concerned in the Federal Power Commission, a company has to be engaged in interstate commerce.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. If he is not selling to anybody in interstate commerce, and you write and ask him to submit you information, he does not have to do it; does he?

Mr. SWIDLER. If he has no facilities employed in the transmission or sale of electricity in interstate commerce, he is not required to file as a public utility with us.

Mr. THOMAS. You cannot very well criticize him. Half the criticism that the Members of Congress get from industry—big, little, and so forth—is that they are subject to the various controls, the paperwork, we have to fill out these forms.

You cannot blame this fellow who does not think he is subject to your jurisdiction for not filling out your forms because he knows when he once starts filling them out, you are going to come back in the next 30 days, or 10 days, and ask him for three times that much more. I am stating the practical view. I am not telling you anything you do not know. You cannot say that he is a bad operator, a poor operator, an expensive operator if he does not comply with your request if, in his judgment, he should not be under your jurisdiction. If he is under your jurisdiction, that is something else.

Mr. SWIDLER. I have no critical feeling whatever about companies that raise substantial legal questions relating to our jurisdiction. I

am sure if I were counsel for these companies, I would do the same. These are questions that need to be resolved. A number of cases raise very respectable legal questions upon which reasonable people may differ. We need to determine them. I think the Commission must find out who it is regulating. We must know, they must know. Then you can have peace.

Mr. EVINS. Will the chairman yield?

Mr. THOMAS. Surely.

Mr. EVINS. I certainly agree with what the chairman just said about proper regulation. Members on this side of the table feel that there should be regulation but not overregulating. Any criticism that I may have ever expressed concerning Chairman Swidler was directed toward his lack of exercising the authority invested in him by the Congress.

Let me add one thing further. If there is any place in the world where there is opportunity or should be an opportunity for a little test case or a few test cases, as to whether there is going to be underregulating or overregulating, I think it ought to be on the side of overregulating in these industries and particularly the private utilities, all in the public interest.

Mr. SWIDLER. I might say, if you are interested, Mr. Chairman, my own philosophy of regulation is to regulate with as light a hand as possible. I am not an advocate of taking over the responsibilities of management. On the contrary. But we all know that these are basic industries, that in almost all the rest of the world they have been taken over by the Government in order to assure that they function in the public interest.

They are operated here by private enterprise because we have developed a system of regulation which at the same time protects the interests of the private operators of these great systems while insuring that their operations conform with the requirements of our national society.

Mr. BOLAND. I think that is a good statement of your philosophy and is a very fair one.

Mr. SWIDLER. Thank you. While regulation should not be heavy-handed, it should not be a sham, either. Many companies claim quite freely that they are subject to State and Federal regulation. But some have not yet filed with us.

ELECTRIC RATE FILING REQUIREMENTS

Mr. SHIPLEY. May I interrupt? What does filing with you require?

Mr. SWIDLER. It takes filing their rate schedules for interstate transactions, their wholesale transactions in interstate commerce, and to comply with our accounting requirements.

Mr. SHIPLEY. Do you have a questionnaire you send out?

Mr. SWIDLER. No, we require them to file their rate schedules and to file annual reports and original cost material.

Mr. SHIPLEY. Where do you go from there after they file this? What is the next step?

Mr. SWIDLER. When they file these reports and their wholesale rate schedules, they are analyzed to see whether on their face they raise questions of fairness that require immediate investigation. If they do not, they are accepted for filing. There is no burden on the company unless a complaint should be filed, or the Commission later initiates an investigation.

Because of the fact that there has been such haphazard administration of the power provisions of our statute, our experience has been that most of the thousand or so of wholesale purchasers of power in interstate commerce do not know that the Federal Power Commission was created to protect them. I think it will require some years of administration before they realize that they have a forum where they can go when they are aggrieved. But they are beginning to come to us.

Mr. SHIPLEY. I am interested in the paperwork involved in this, how often they have to refile, what they do after you file a complaint, and what they are subject to.

Mr. SWIDLER. When a complaint is filed, the company would, of course, be given an opportunity to answer. Then the case would normally be set for hearing if it could not be worked out by agreement. Frequently these things can be adjusted by conference. It would be set for hearing and heard before an examiner in contested proceedings, which are the exception.

So far as the utilities books are concerned, their accounts, they would become subject to our accounting regulations. To the extent that money was available, we would make studies of their original cost data to be sure their costs were not inflated. We would periodically test check their accounts to be sure they were complying with our system of accounts.

NATURAL GAS QUESTIONNAIRE

Mr. SHIPLEY. To be specific, on the *Permian Basin* case, did you send out a questionnaire to gain information?

Mr. SWIDLER. We did send out a questionnaire in connection with our new proceedings which also cover the Permian area. Maybe you have that questionnaire in mind. We recently sent out a comprehensive questionnaire to all large natural gas producers, those that produced more than 10 million thousand cubic feet per year so that we would have the basic data with which to proceed with gas producer regulation.

Mr. SHIPLEY. How have they been responding to that?

Mr. SWIDLER. The data for filing has not arrived yet. I presume that all will be filed in good order.

You understand that the natural gas producers do not file comprehensive annual reports such as we require from the pipelines or the electric power companies.

Mr. SHIPLEY. I realize that.

Mr. SWIDLER. We therefore do not have in our files the body of information that is required to ground these area rates proceedings in the facts. It has been necessary to acquire this information by sending out these questionnaires.

Mr. SHIPLEY. I would like to have one of those questionnaires, if I may. Would you see that I get one sent to my office?

Mr. SWIDLER. I would be very glad to do so.

Mr. SHIPLEY. Regulation we may need but in my opinion, the way the Commission has gone about this has maybe been a little bit too fast. Maybe it has deteriorated over the years, I do not know. I am not qualified to say. I think, frankly, you are moving too fast in the area and trying to do too much too fast. I think that the case that we discussed where it has taken 2½ years, I cannot see——

Mr. EVINS. It is not very fast.

Mr. SHIPLEY. That is what I mean. There is something wrong, in my opinion, or they could have had this thing settled long ago. I do not understand how the independents involved—I say independents meaning small independent producers—can keep up with the proceedings or functions or anything else that are going on with the Federal Power Commission. I know it is very expensive for them. Most of them I have knowledge of cannot afford this added cost. I just say that I think you are moving a little too fast in this field. That is all, Mr. Chairman.

Mr. THOMAS. Mr. Wyman.

DEFINITION OF INTERSTATE TRANSACTIONS

Mr. WYMAN. Mr. Chairman, what constitutes one of these companies engaging in interstate commerce, from your understanding of the requirements of the law?

Mr. SWIDLER. In general, a company which has facilities which are used for interstate transactions.

Mr. WYMAN. Merely because, for example, the company might use wire in its intrastate transmission lines that it acquired outside of the State would not put it in interstate commerce, would it?

Mr. SWIDLER. This is a significant thing. Becoming a member of an interstate power pool is, I think, a significant factor in determining, perhaps the most significant factor, in determining whether that company is subject to the Federal Power Commission.

Mr. BOLAND. Excuse me. Was that the correct response? Were you talking about the purchase of wire which is used by a company in the intrastate transmission of electric energy but not transmitting the electric energy over a State boundary? Are you just talking about equipment?

Mr. WYMAN. I will clear that up. Do I understand you to say that you have a basis for FPC jurisdiction even though a particular company within a State does not transmit any power across State lines?

Mr. SWIDLER. No, sir, I am not sure I understood your question. It may be that——

Mr. WYMAN. Let me illustrate it and perhaps help. Suppose we have a little company in a small town within a State—there are not too many—that has lines that go out to perhaps five or six other towns, a privately owned company. We will say it buys its wire from some wire company in Ohio, another State. It strings its lines up. It has on its shelves a lot of goods that were purchased in other States. It incorporates in its plant an assembly system of goods purchased in other States. Does this put it in interstate commerce?

Mr. SWIDLER. No, sir. I did misunderstand your question.

Mr. WYMAN. Is there anything in the language of your act which uses the phrase "affecting commerce" as a basis for jurisdiction of the Federal Power Commission?

Mr. SWIDLER. I think it is "in interstate commerce."

Mr. WYMAN. Generally speaking, for there to be a claim of jurisdiction there must be activity of a company that directly carries power as a part of a pool or otherwise across State lines?

Mr. SWIDLER. Were it not interconnected with systems across State lines, I do not see how we would have jurisdiction over the company, under Part II.

Mr. WYMAN. I have reference, of course, to the new approach in the civil rights bill which uses the phase "affecting commerce" for the basis of claiming that activities are in interstate commerce.

Mr. SWIDLER. No, sir. Under Part II of the Federal Power Act, that is not a criterion.

Mr. THOMAS. Are there any further general questions?

MAGNITUDE OF ELECTRIC POWER AND GAS INDUSTRIES

Mr. EVINS. Would it be possible for the chairman to spell out for the record the volume of business of the utilities and the gas companies and give us some round figures of the enormity of the industries you regulate as to size and volume dollarwise?

Mr. SWIDLER. I can give that to you in round figures.

Mr. EVINS. Numbers of industries, amount of investment, amount of profits, size of the industry. Give us a picture of all.

Mr. SWIDLER. The electric power industry in terms of investment is the largest in the country. Its investment is in the order of $70 billion. I think its revenues are running something over a billion dollars a month, on the order of $13 billion or $14 billion a year gross revenue.

The natural gas industry is roughly half the size. It has an investment in the order of about $20 billion. Its revenues are in the order of about $6 billion a year.

About 20 percent of all the energy that is used in the United States is used in the form of electric energy. This is a percentage which is rapidly increasing.

HYDROELECTRIC POWER

Mr. THOMAS. What part of that electrical energy is produced hydroelectrically?

Mr. SWIDLER. About 20 percent.

Mr. THOMAS. Steam is about 80 percent?

Mr. SWIDLER. Steam is about 80 percent.

Mr. THOMAS. That is a big percentage, that 20 percent.

Mr. EVINS. That is all over the United States?

Mr. SWIDLER. Yes.

Mr. BOLAND. I understand that the movement now seems to be toward hydroelectric. Some statements I read a few weeks ago indicated that the production of energy by hydroelectric plants instead of by steam is probably the best area to get into. Is this so?

Mr. SWIDLER. No, sir; but the share of hydro is holding up surprisingly well. Only about a fourth of this Nation's hydroelectric resources have been developed. We have on file 105 applications for

major licenses. This volume of work is very heavy. Of course, inasmuch as——

Mr. THOMAS. At a cost of $4 billion, I believe.

Mr. SWIDLER. Something like $2 billion. It is a very large amount. these require processing. The hydropower is a renewable resource and to the extent that hydropower is economical, we ought to encourage license applications.

Mr. THOMAS. Mr. Boland raises the question of what is the economy involved between hydroelectric and steam? You take the fairest point of advantage for hydroplants and say a steamplant located right over a coal mine where you have a low cost. How would the cost average out between the two?

Mr. SWIDLER. There is a very great variation in hydro cost depending on the site. You could not equal the very best hydro sites with any thermal source, some of the best sites on the Columbia, for example, or on the St. Lawrence system.

On the other hand, poor hydro sites are not competitive with steamplants at all.

PUMPED STORAGE

You may be thinking, Mr. Boland, about the new developments in pumped storage, which is a relative novelty. Pumped storage is a special kind of hydro project now coming into very wide use. In effect, it is a way of storing steampower. It does not require a great deal of water. Any site where you have a modest amount of water and a great deal of head is suitable. Two pools at different elevations are required. You can pump the water at night from a lower pool into the higher pool with off-peak steampower and use that stored water to generate hydropower during the peak hours of the next day. You pump for perhaps 16 hours and you can generate about eight. You obtain something on the order of 2 kilowatt-hours of peak power for every 3 kilowatt-hours of off-peak power. This is the great charm of these pumped storage plants, which are coming into increasing use as manufacturers are learning to make dependable reversible pumped storage units. We have a good many applications for these projects. I think the number of applications will increase.

NUMBER OF POWER CONSUMERS

Mr. EVINS. You have given us a rather good picture of the volume and size of the industries. I do not believe you touched on numbers of consumers in each.

Mr. SWIDLER. The electric power industry has something over 60 million consumers. The natural gas industry has about 34 million customers. Of course, the natural gas lines do not go out into many of the smaller communities, into the country areas, the way electric power lines do. Nowadays there is virtually a hundred percent electrification in the United States.

JURISDICTION OVER COOPERATIVES

Mr. THOMAS. In your justification you mentioned with quite a bit of interest in two or three different spots in your justification about your jurisdiction or your alleged jurisdiction over cooperatives. We

have seen through the years on this side of the table that regardless of what is said to the contrary, perhaps one of the most popular things that the Congress has done in a long time is to make available to rural communities electric power. What jurisdiction are you asserting now over these cooperatives and what are you basing your jurisdiction on?

Mr. SWIDLER. We have now proceedings underway involving three electric power cooperatives to determine whether we have jurisdiction. The question of jurisdiction arises because in the language our General Counsel read to you we have jurisdiction over persons operating facilities in interstate commerce.

Mr. THOMAS. Do you have any demand from individual farm users requesting that you take jurisdiction or do you have any demand from co-ops themselves that you take jurisdiction?

Mr. SWIDLER. No, sir.

Mr. THOMAS. What is the object of your asserting jurisdiction, then?

Mr. SWIDLER. We are talking only about those cooperatives which sell power at wholesale in interstate commerce. We are not talking about the distribution cooperatives. We are not talking about roughly the thousand——

Mr. THOMAS. Farm co-ops?

Mr. SWIDLER. We are not talking about those. We are talking about interstate transmission cooperatives. These are primarily the ones involved. These are increasingly active in interstate pools. We look forward to the day when they will have even heavier responsibilities in combination with the private companies and the public systems.

I think there is a real question whether we should arbitrarily exclude them.

Mr. THOMAS. Does your statement apply to a farm co-op that serves purely a farm communuity if it then goes across the State line and serves purely another farm community?

Mr. SWIDLER. The statute exempts distribution operations. In the case of a purely distribution cooperative, we would have no jurisdiction.

Mr. THOMAS. Is that specifically set out? Will you read into the record at this point that language?

Mr. SWIDLER. This is section 201(b):

> The provisions of this Part shall apply to the transmission of electric energy in interstate commerce and to the sale of electric energy at wholesale in interstate commerce, but shall not apply to any other sale of electric energy or deprive a State or State commission of its lawful authority now exercised over the exportation of hydroelectric energy which is transmitted across a State line. The Commission shall have jurisdiction over all facilities for such transmission or sale of electric energy, but shall not have jurisdiction except as specifically provided in this Part and the Part next following, over facilities used for the generation of electric energy or over facilities used in local distribution or only for the transmission of electric energy in intrastate commerce, or over facilities for the transmission of electric energy consumed wholly by the transmitter.

What this exempts are the industry plants; generation as such is exempted so that if the Ford Motor Co. has a generating plant which is a part of its industry complex, and not interconnected with public systems——

Mr. THOMAS. That language——

Mr. SWIDLER. We would have no jurisdiction.

Mr. THOMAS. That answer does not answer the question.

Mr. SWIDLER. "Or over facilities used in local distribution" was the key language. I was trying to explain some of the other exemptions at the same time. If the facilities are used in local distribution they would not be a basis for the assertion of jurisdiction by this Commission.

Mr. JONAS. Mr. Chairman.

Mr. THOMAS. Yes.

FPC 1961 ACTIVITIES IN NATURAL GAS

Mr. JONAS. I was not expecting the chairman to say that there had been a complete breakdown in the regulatory activities of the Federal Power Commission when he took office and I, therefore, am not prepared to discuss that with him but I have had the clerk hand me a copy of our hearings on January 21, 1960, and with your permission I would like to read several colloquys that occurred here with the then chairman, which may give the committee and the record a little picture—and it is not thorough or complete—of the activities of the Commission in the year preceding the one that Mr. Swidler took over.

Mr. SWIDLER. Mr. Jonas, I did not say that there was a complete breakdown in the regulatory activities of the Commission. At least I did not mean to. I have pointed out some areas in which there was a breakdown; wholesale electric power rate regulation was one such area. In other areas there was a great deal of effective activity.

Mr. JONAS. I thought you referred to the gas problem as one of the areas in which there was a breakdown.

Mr. SWIDLER. Yes, sir. I do think on the natural gas side there was.

Mr. JONAS. Of course, the Commission's jurisdiction was not completely established until the *Phillips* case; is that correct?

Mr. SWIDLER. Until 1954; yes, sir.

Mr. JONAS. Mr. Gatchell, who was with the Commission at that time, at the time I referred to—I forget what his title is.

Mr. THOMAS. He was chief counsel and had been for many years.

Mr. JONAS. He responded to a question asked about activity in the natural gas industry division with this statement:

> I can give you some figures on that period. During the period from June 7, 1954, when the *Phillips* case was decided, up to December 31, 1959, the Commission received 42,462 rate filings by independent producers and it had to act on all of those carrying increases within 30 days of the filing.
>
> During that period we had 12,339 certificate filings. It disposed of 9,700 certificate filings during that period. None of the work on independent producers had come before the Commission prior to June 1954. Within that period that is the number of cases that the Commission had been faced with over and above the certificate and rate work it had on pipeline companies prior thereto.

Then later on my colleague, Mr. Evins, asked this question:

> Before the *Phillips* case you said you had 42,000 rate filings and you had to act on them by statute within 30 days.
>
> Mr. GATCHELL. When they file a change in rates the Commission must act on it within 30 days if they want to suspend them. If they go into effect without suspension the Commission, may, under section 5(a) undertake its own investigation and change those rates from the date of its determination. If they are suspended, they can be placed into effect at the end of the suspension period

without the Commission's consent. Then the Commission continues its investigation and whatever amount it finds is not justified has to be refunded.

Mr. EVINS. You did act on those 43,000 cases within the 30-day period?

Mr. GATCHELL. Yes, sir.

Mr. EVINS. How many of those were because of rate increases?

Mr. GATCHELL. The Commission has suspended as of November 30, 1959, $139 million of independent producer rate increases.

Mr. EVINS.—

and I am skipping a couple of questions—

How many cases is that out of the 42,000 filings?

Mr. GATCHELL. 2,282. Rates have been suspended and still would be pending as of November 30. A great many others had been suspended prior to that. I do not have the figures.

Later on Mr. Evins asked another question:

Of the 42,000 cases you talk about, you take pride in stating you suspended $137 million of rate increases annually but you do not have the figures as to how many of those cases represented actual rate increases to the public.

Skipping a few lines:

Mr. KALLINA. On independent producers during calendar 1939 the Commission allowed 33 tax increases amounting to $132,000 and the Commission allowed 806 other rate increases without suspension, amounting to $5,430,000, so the total allowed by the Commission during calendar year 1959 was 839 increases, aggregating $5,612,000. During that same period the Commission suspended 1,265 increases, aggregating 69½—

and then the reporter did not get what he meant by 69½; I don't know whether he is talking about millions or not.

Mr. EVINS. Of that $5½ million of increase for 1959 that would be about the average? That was calendar year 1959.

Mr. KALLINA. As against the $5.6 million the Commission suspended 1,265 cases, aggregating $69,500,000. In 1958 the Commission suspended 1,064 increases, aggregating $37,612,000.

Mr. EVINS. That is both sides of the coin and it is a good picture. One year you suspended an amount of $69 million and the next year $37 million, as compared to $5 and $7 million of increases.

Mr. KALLINA. That illustrates the point I was trying to make about the difficulty of striking an average. You just cannot control the increases as they come in from the producers. Each one has to be analyzed and the Commission has to act on each one of them as they come in.

So it would appear in that year at least the Commission was quite active. It had a backlog of 43,000 filings dumped in its lap following the *Phillips* decision and the vast majority of them were suspended and the Commission apparently was doing a pretty good job of denying increases because the denials of requested increases far exceeded the increases granted.

Mr. SWIDLER. Yes, sir. I do not want to downrate the work of our predecessors but the significant thing in what you read was the extent of the suspensions without disposing of the suspended cases. That is what created the backlog that confronted us. It is much easier to suspend, which in effect initiates a case, than it is to take that case and run it through a rate proceeding and dispose of it by settlement or decision.

EXTENT OF PROGRESS ON SUSPENSION CASES BY PRIOR COMMISSION

Mr. JONAS. Will you tell us, when you came into office, had any work been done on these suspensions?

Mr. SWIDLER. Yes, sir.

Mr. JONAS. Isn't it true that in many cases you had to have a field investigation, you had to have a hearing examiner's investigation, and then you finally had to have board action? You would not say there had not been anything done on these cases.

Mr. SWIDLER. A great deal of work had been done but not any of them had been disposed of.

Mr. JONAS. You would not say not any of them. That would be an exaggeration, would it not?

Mr. SWIDLER. I will try to find out exactly how many had been disposed of, but not many.

Mr. JONAS. I do not want to hold the hearing up, but there is some information indicating here that a substantial amount of these cases from year to year had been disposed of.

Mr. SWINDLER. My associates tell me that the Commission had not disposed of any major producer cases.

Mr. JONAS. Any major producer cases?

Mr. SWIDLER. Yes, sir.

Mr. JONAS. How many of the 43,000 were major?

Mr. SWIDLER. These are filings, sir. The filings are either accepted or suspended. I do not know how many of them were major, but when——

Mr. JONAS. Ask your associate who volunteered the information that none was completed. Ask him how many were involved. How many were pending when you took over, major cases.

Mr. SWIDLER. May I put that in the record?

Mr. THOMAS. There is more trouble with a little case than in a major one.

Mr. JONAS. I would like to know how far along these major cases were toward disposition. You had led me to believe in your opening statement that there had not been anything done on them. You had to start from scratch. Now if some of these cases were 50-percent completed you would at least have to give somebody else credit for 50 percent of the work. If some were 75-percent completed, the credit would have to be divided also, would it not?

Mr. SWIDLER. I am glad to do that. A good many of these cases had already been in hearing. There had been accumulated a great deal of data that was indispensable to the settlement and a lot of them had gone a substantial way through the process of disposal, but none of them had finally been liquidated.

Mr. JONAS. If you are going to supply the information for the record, give the date when these cases were instituted and the extent to which they had moved toward completion.

Mr. EVINS. Will the gentleman yield?

Mr. THOMAS. Are you through, Mr. Jonas?

Mr. JONAS. Yes, sir.

Mr. SWIDLER. What I said about no major case having been disposed of related to producer cases; on the pipeline side I think there had been some cases disposed of, but there was, nevertheless, this backlog which was almost hopeless.

Mr. THOMAS. Mr. Chairman, you do not want to low-rate anybody?

Mr. SWIDLER. No, sir.

Mr. THOMAS. You are not of that disposition, but your opening statement clearly low-rated everybody. It sort of low-rated the committee in my judgment, as if we had been handing out money, not

knowing what we were doing. Isn't it a fair statement to say that your predecessors were plowing in absolutely virgin soil?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. They had done a lot of work. You have come along and you had the advantage of what they had done already in this virgin soil and you have carried it on and in your opinion you have carried it on expeditiously.

I think we will all agree with you, too. Isn't that a fair statement?

Mr. SWIDLER. I am very pleased to accept that statement.

(The information supplied follows:)

Natural gas industry—Rate activity during period July 1, 1954, through June 30, 1961

Fiscal year	Total rate filings received	Rate increase filings received	Rate increase filings		Number of dockets which cover rate increase filings suspended	Suspension dockets (number disposed of during fiscal year)		
			Accepted without suspension	Suspended		Total	Without hearing	After hearing
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1955	10,978	2,633	2,526	107	90			
1956	4,442	748	618	130	101	13	10	3
1957	6,947	1,401	1,123	278	231	32		32
1958	7,665	2,303	1,370	933	702	53	18	35
1959	8,769	2,042	951	1,091	766	103	78	25
1960	8,805	2,349	654	1,695	1,043	460	411	49
1961	7,915	1,546	627	919	565	323	289	34
Total	55,521	13,022	7,869	5,153	3,498	984	806	178
Pertinent percentages		[1] 23.5	[2] 60.4	[3] 39.6	[4]	[5] 28.1	[6] 81.9	[7] 18.1

[1] Of col. (1). [2] Of col. (2). [3] Of col. (2). [4] Not available. [5] Of col. (5). [6] Of col. (6). [7] Of col. (6).

Although the figures tabulated above are not entirely comparable, the following paragraphs from the Commission's Opinion No. 338 in the *Phillips Petroleum Co.* case, decided September 28, 1960, indicates the extent of the Commission's backlog at that time.

"An illustration of the administrative impossibility of separate determinations for all producers' rates is found in the fact that there are 3,372 independent producers with rates on file with this Commission.[6] The producers have on file with us 11,091 rate schedules and 33,231 supplements to these schedules. Currently, 570 of these producers are involved in 3,278 producer rate increase filings now under suspension and awaiting hearings and decisions. The number of completions of independent producer rate cases per man-year during the first 6 years following the *Phillips* decision indicate that nearly 13 years would be required for our present staff to dispose of the 2,313 cases pending on July 1, 1960. Within this 13-year period an additional estimated 6,500 cases would have been received.

"Thus, if our present staff were immediately tripled, and if all new employees would be as competent as those we now have, we would not reach a current status in our independent producer rate work until 2043 A.D.—82½ years from now. Of course, we could expect to improve our techniques and thus shorten the time required to process these cases. If we increased our efficiency 1,000 percent, we would achieve current status in 1968—8⅞ years from now. And regardless of how much our staff is increased every case must still be reviewed by us and our own time and capacity is not unlimited.[7]"

[6] To these add 15,435 nonfiling coowners whose rights should also be considered under any rate base theory.

[7] The bills introduced into Congress to eliminate some smaller producers from our jurisdiction would not actually reduce these figures to any substantial extent. Field unitizations, production fluctuations from year to year, fluctuations in the allowables set by the States, processing contracts, and various other factors would prevent such a law from reducing our workload to any great extent beyond that which it has already been reduced by our own regulations in regard to filings.

Mr. THOMAS. Gentlemen, let's get some lunch and come back at 1 o'clock.

AFTERNOON SESSION

Mr. THOMAS. Gentlemen, will the committee please come to order?

SUMMARY HIGHLIGHTS OF BUDGET REQUEST

Mr. Reporter, will you be good enough to put pages 1 and 2 in the record.

(The pages follow:)

INTRODUCTION

The Commission is requesting $13,335,000 for fiscal year 1965. This amount is an increase of $1,485,000 over the 1964 appropriation of $11,850,000. We are requesting 86 additional positions over the maximum 1,148 positions authorized in 1964 for a total of 1,234 in 1965. Of the total increase, $510,000 is needed for personnel compensation and benefits for the 86 new positions, $592,000 is needed for pay increases and for personnel compensation and benefits for the 1,148 maximum positions authorized in 1964, and $383,000 is needed for other costs such as travel, rentals, equipment, and supplies.

While the Federal Power Commission is budgeting for $13,335,000 in 1965, this amount is estimated to be offset by $5,832,000 in payments to the Treasury. This is an increase in receipts of $1,189,121 over 1963. The increase reflects action taken by the Commission to insure that the non-Federal licensing activity under part I of the Federal Power Act is self-supporting and that payments owed the Treasury by licensees for benefits from upstream Federal projects are paid. The net cost to the Government for the Federal Power Commission's work in 1965 would thus be $7,503,000.

The budget submitted provides the resources for regulating the electric power and natural gas industries—two of the largest and fastest growing industries in this Nation. The pace of progress in these two basic energy industries is largely controlled by the Federal Power Commission's ability to discharge its regulatory functions promptly. Adequate staff is the heart of effective regulation and is an absolute necessity for prompt disposition of workload. Construction of hundreds of millions of dollars of natural gas pipelines will be delayed unless we have adequate staff to process certificate applications. The same can be said about our licensing work for non-Federal hydroelectric power projects and indeed for all of our regulatory activities.

The damage to the natural gas and electric power industries from insufficient FPC staff would be compounded by the loss of protection to the gas and electric consumers which include almost everyone in the Nation. The Commission's record in the past 2 years of ordering some $550 million in refunds to the customers of the Nation's natural gas pipelines is in itself ample proof of the large dividends to the economy from small investments in FPC staff. We are also encouraging the construction of stronger transmission line interconnections and larger and more efficient generating units by the electric power companies to reduce electric power costs and thus facilitate rate reductions to consumers. The benefit of FPC activities is thus nothing less than a long-term reduction in two major energy sources of the Nation.

Mr. THOMAS. Pages 4 and 5 are excellent. This is condensed. In truth and in fact it is a summary of the Chairman's statement. They are both excellent.

The first two paragraphs really tell the tale in the condensed form.

[Reading:]

The Commission is requesting $13,335,000 for fiscal year 1965. This amount is an increase of $1,485,000 over the 1964 appropriation of $11,850,000. We are requesting 86 additional positions over the maximum 1,148 positions authorized in 1964 for a total of 1,234 in 1965. Of the total increase, $510,000 is needed for personnel compensation and benefits for the 86 new positions, $592,000 is needed for pay increases and for personnel compensation and benefits for the 1,148

maximum positions authorized in 1964, and $383,000 is needed for other costs such as travel, rentals, equipment, and supplies.

Your increase is broken down; $510,000 is for compensation for the 86 new jobs; $592,000 is for the pay increases, and $383,000 is needed for other costs and travel. He breaks it down.

I want to take special notice of the last paragraph.

(The paragraph follows:)

The Commission in the past 2 years has concentrated on improving its procedures to utilize its manpower more efficiently and in general accelerating the regulatory process. The budget request for 1965 is the minimum amount that will enable us to continue our core programs without reverting to former standards which resulted in endless delay to the industry and rendering illusory the congressional objective of consumer protection.

Mr. THOMAS. I cannot put my finger on where the Corps picked up six of your jobs last year.

Mr. SWIDLER. Yes, sir. We discussed this with them.

Mr. THOMAS. If you were to put them all in uniform you would have a young army.

Mr. SWIDLER. No doubt that is true. This is a very comprehensive program of surveys that the corps is planning to make. Our part of the program will be evaluation of the power aspects.

COMPARATIVE SUMMARY BY ACTIVITIES

Mr. THOMAS. Let's put the cover sheet No. 8 in the record.

You have natural gas, electric power, non-Federal hydroelectric projects, Federal river development projects. This is by activities. You get your other objects later.

Page 9 is also well done. Let's put this in the record.

(The pages follow:)

Salaries and expenses, comparative summary by activities

	1963 actual		1964 estimate		1965 estimate	
	Positions	Funds	Positions	Funds	Positions	Funds
1. Natural gas industry	677	$5,751,744	638	$6,466,000	664	$6,983,000
2. Electric power industry	197	1,989,747	198	2,136,000	223	2,520,000
3. Non-Federal hydoelectric projects	168	1,749,590	175	1,885,000	198	2,257,000
4. Federal river development projects	50	505,994	45	462,000	57	617,000
5. Administration	86	794,813	92	901,000	92	958,000
Total	1,178	10,791,888	1,148	11,850,000	1,234	13,335,000
Change in resources		+208,000				
Transfer to General Services Administration		73,282				
Unobligated balance		6,830				
Total appropriation	1,178	11,080,000	1,148	11,850,000	1,234	13,335,000

Summary of activities, 1965

Activity	1963 actual		1964 estimate		1965 estimate		Increase over 1964	
	Positions	Funds	Positions	Funds	Positions	Funds	Positions	Funds
Natural gas industry:								
Certificates of convenience and necessity	220	$1,870,297	212	$2,141,400	225	$2,378,000	13	$236,600
Rate filings	59	502,088	56	568,100	56	585,000		16,900
Rate cases	366	3,107,754	338	3,426,000	351	3,680,000	13	254,000
Enforcement of uniform accounting	17	144,410	17	175,600	17	181,000		5,400
Gathering and analysis of data	15	127,195	15	154,900	15	159,000		4,100
Activity total	677	5,751,744	638	6,466,000	664	6,983,000	26	517,000
Salaries		4,907,344		5,604,000		5,913,000		309,000
Travel		179,901		164,000		174,000		10,000
Other costs		664,499		698,000		896,000		198,000
Electric power industry:								
Regulation of rates	32	322,966	53	569,600	78	878,000	25	308,400
Regulation of finances and operations	22	222,463	22	241,000	22	251,000		10,000
Enforcement of uniform accounting	10	100,503	16	175,300	16	182,000		6,700
Power system analysis	84	848,069	58	624,400	58	650,000		25,600
Interconnection and coordination	19	191,978	19	208,100	19	217,000		8,900
Gathering and analysis of data	30	303,768	30	317,600	30	342,000		24,400
Activity total	197	1,989,747	198	2,136,000	223	2,520,000	25	384,000
Salaries		1,552,435		1,735,000		1,999,000		264,000
Travel		43,832		57,000		65,000		8,000
Other costs		393,480		344,000		456,000		112,000
Non-Federal hydroelectric projects:								
Licensing	88	933,190	97	1,047,300	115	1,313,000	18	265,700
Supervision of licensed operations	21	221,340	23	242,500	28	322,000	5	79,500
Headwater benefit determinations	19	126,797	19	198,400	19	219,000		20,600
Licensed project accounting	40	468,263	36	396,800	36	403,000		6,200
Activity total	168	1,749,590	175	1,885,000	198	2,257,000	23	372,000
Salaries		1,356,835		1,505,000		1,759,000		254,000
Travel		119,030		120,000		151,000		31,000
Other costs		273,725		260,000		347,000		87,000
Federal river development projects:								
Cooperative investigations and related activities	42	425,168	38	388,500	38	408,000		19,500
Survey coordinating committees	8	80,826	7	73,500	19	209,000	12	135,500
Activity total	50	505,994	45	462,000	57	617,000	12	155,000
Salaries		421,642		378,000		503,000		125,000

Travel		15, 921		13, 000		18, 000		5, 000
Other costs		68, 431		71, 000		96, 000		25, 000
Administration:								
Activities total	86	794, 813	92	901, 000	92	958, 000		57, 000
Salaries		663, 902		788, 000		816, 000		28, 000
Travel		28, 262		25, 000		25, 000		
Other costs		102, 649		88, 000		117, 000		29, 000
Activities, total	1, 178	10, 791, 888	1, 148	11, 850, 000	1, 234	13, 335, 000	86	1, 485, 000
Salaries		8, 902, 158		10, 010, 000		10, 990, 000		980, 000
Travel		386, 946		379, 000		433, 000		54, 000
Other costs		1, 502, 784		1, 461, 000		1, 912, 000		451, 000
Changes in resources		+208, 000						
Transfer to GSA		+73, 282						
Unobligated balance		+6, 830						
Appropriation	1, 178	11, 080, 000	1, 148	11, 850, 000	1, 234	13, 335, 000	86	1, 485, 000

Mr. THOMAS. This is the meat in the coconut. You can get all the details you want right here.

We like your charts. They are always good.

ORGANIZATION

Gentlemen, take a look at the charts. We want to keep them in mind. Here is a complete organization setup on page 10. The more complete one, the one that gives you a whole lot is your organization breakdown with your personnel and with your grades. Keep these in mind as we go through the justification.

Mr. SWIDLER. May I call attention to one item, Mr. Chairman?

Mr. THOMAS. Go ahead.

COMMISSIONERS' STAFF

Mr. SWIDLER. You will notice that under the Commission there is an increase of six positions, which give——

Mr. THOMAS. I noted that this morning at 6 o'clock, Mr. Chairman.

Mr. SWIDLER. You got up very early this morning, Mr. Chairman. I wanted to call this item to your attention. It includes one additional assistant for each of the Commissioners.

Mr. THOMAS. You will notice the horsepower he has up with the Commissioners. Besides the Commissioners you have an 18, 17, four 15's, and 14.

Off the record.

(Discussion off the record.)

Mr. OSTERTAG. Will the chairman yield?

Mr. THOMAS. Yes.

Mr. OSTERTAG. Mr. Chairman, is that grade 15 technical adviser as assistant to the Commissioners a new position?

Mr. SWIDLER. Yes.

Mr. OSTERTAG. There is an increase of one grade 13 under the Commission, but you have a total increase of about 17 in grade 13 throughout the Commission.

Mr. THOMAS. All your operating bureau chiefs are 18's, except the hearing examiners and certainly the chief examiner——

Mr. JONAS. Mr. Chairman, before you leave the Commissioners——

Mr. THOMAS. Mr. Jonas.

Mr. JONAS. I notice you are asking for an assistant for each of the five Commissioners.

Mr. SWIDLER. An additional assistant.

Mr. THOMAS. They already have one.

Mr. JONAS. That is what I say. How many will that give to the Chairman, three assistants?

Mr. SWIDLER. I would then have three.

Mr. THOMAS. Look at the box. There is an assistant to the Chairman.

Mr. JONAS. He is a 17.

OFFICE OF SPECIAL ASSISTANTS

Mr. SWIDLER. The Office of Special Assistants to the Commission is the opinion-writing group, sir. They analyze the records in these complex cases and prepare summaries that are aids to us for decision and then they prepare the first drafts of most opinions.

OFFICE OF ADMINISTRATION

Mr. THOMAS. Look at the housekeeping activities—Office of Administration, 166 people. You have wage boards, 24, but they are people, too. You have 166 people to take care of less than 1,300. But at that you are better than one of the agencies we took a look at not long ago.

Mr. SWIDLER. I should explain that a great many of these people work in our reproduction plant.

We are a decisional agency. We have 18 hearing examiners. Our normal agenda is in the neighborhood of 60 to 120 items. The opinions, pleadings and briefs run very long. Our reproduction staff does a tremendous volume of work.

OFFICE OF HEARING EXAMINERS

Mr. THOMAS. What is the grade of your hearing examiners? Your chief is 17; assistant, 16. You have 13 at 15. What do you have altogether, 27 or 28 hearing examiners?

Mr. SWIDLER. We have 18 hearing examiners. The others are technical and clerical staff.

Mr. THOMAS. You mean of the majority of them? Fifteen is not too many.

Mr. SWIDLER. As you know, the hearing examiner positions are not rated directly by us but by the Civil Service Commission, which allocated a certain number of grade 16's and 17's; I think one 17 to each agency for the chief hearing examiner position. The 16's have been awarded on the basis of seniority so the number that we have so far as 16's are concerned depends on their seniority in relation to all the hearing examiners in the Federal service of similar grade.

Mr. THOMAS. Mr. Reporter, put page 12 in the record.
(The page follows:)

Collections under the Federal Power Act and from other sources

	1963 actual	1964 estimate	1965 estimate
1. Source of funds:			
Annual fees from licensees:			
Collections for administering pt. I of the Federal Power Act	$1,474,566	$1,765,000	$2,049,000
Collection for use of Federal lands	261,316	238,000	238,000
Collection for maintenance of navigation	307,454	308,000	308,000
Fines, penalties, and other forfeitures	75		
Collection for use of Indian lands	242,705	241,000	241,000
Oregon and California land grant	1,013	1,000	1,000
Subtotal, annual fees from licensees	2,287,129	2,553,000	2,837,000
Headwater benefit payments	2,839,986	3,000,000	3,500,000
Subtotal, collections under sec. 10(e) of the Federal Power Act	5,127,115	5,553,000	6,337,000
Sale of publications and miscellaneous services	33,205	36,000	36,000
Repayment to the United States for cost of remedial works at Niagara River	108,655	63,000	63,000
Subtotal, other collections	141,860	99,000	99,000
Total collections	5,268,975	5,652,000	6,436,000

Mr. THOMAS. This has to do with the collection of fees. Your collection comes from one source and one source alone. This year you had $5,652,000 and you estimate it will be $6,436,000. Where do the fees come from?

Mr. SWIDLER. There are two major sources of fees which go into the Federal Treasury.

Mr. THOMAS. Is it two or one?

Mr. SWIDLER. There are two, sir.

Mr. THOMAS. What is the other one?

Mr. SWIDLER. One is licenses and the other is headwater benefits.

Mr. THOMAS. Which produces the most?

Mr. SWIDLER. The headwater benefit payments we estimate are now going to produce more than the fees. We estimate for 1965 that we will get $3,500,000 from headwater benefits.

Mr. THOMAS. Where are the fees from non-Federal projects?

Mr. SWIDLER. Non-Federal projects are listed on the top line. Those go into the Federal Treasury.

Mr. THOMAS. All of them go in?

Mr. SWIDLER. Yes, sir.

Mr. OSTERTAG. This whole $6,337,000 goes into the Federal Treasury?

Mr. SWIDLER. Some, as you see, is paid out. Some is paid out to the Indians, some go into other trust funds, but most of it stays in the Treasury.

Mr. THOMAS. Are the fees based on a break-even basis for licenses for non-Federal projects?

Mr. SWIDLER. Yes, sir. We have revised our fee system now so as fully to compensate the United States. There is one little problem that I should mention to you.

Mr. THOMAS. That is both categories?

Mr. SWIDLER. I am talking now about license fees for non-Federal hydro projects.

Mr. THOMAS. That is your big source.

Mr. SWIDLER. That is a big source. The headwater benefits is the larger one.

Mr. THOMAS. That has been your source all along, or the main source, hasn't it?

Mr. SWIDLER. In the past it has been the only one because the other collections did not amount to anything.

Mr. THOMAS. There are two sources. When did you start this one on the fees for non-Federal projects?

Mr. SWIDLER. The fees have been the main source all along and as you see we are projecting a very substantial increase because we have revised our fee basis. So far as headwater benefit payments are concerned, through the whole period of the history of the statute, until 1962, the total collections were about half a million dollars.

Last year alone we collected about, as I recall, $2.8 million.

Mr. THOMAS. What is the yardstick of the fee in both instances, non-Federal and headwater benefits?

Mr. SWIDLER. The yardstick of the license fees is our cost of administration and all of the costs that go into the licensing part of our statute are reimbursable so that so far as the increase in positions are concerned—this is the point that I had in mind——

Mr. THOMAS. Is there any fee on the gas side?

Mr. SWIDLER. No, sir.

So far as licensed project administration is concerned, there is little or no net cost. When these two sources of revenues are taken into consideration, the net amount of the appropriation which we are requesting is $7,500,000, not greatly larger than for the appropriations for a good many years ago.

On license fees there is this one small problem I wanted to mention to you. Recently one of the licensees, in response to our efforts to collect additional fees which would make them pay a pro rata share of the cost of these activities, made the point that their license prescribed a maximum amount. They contend that their license provides that the license fees will not be increased, regardless of our costs. This is in my judgment a respectable legal point. The case has not been decided. I cannot tell you how it will be decided, but we may arrive at the conclusion——

Mr. THOMAS. You estimate you will collect $2,049,000 for fees for non-Federal projects?

Mr. SWIDLER. Yes, sir. This point I just mentioned might cover 10 percent of the fees.

Mr. THOMAS. How many cases are you going to handle this year? I am trying to figure out how much it is per case.

Where is that table on the workload?

Mr. SWIDLER. You are talking about Federal projects.

Mr. THOMAS. Yes.

Mr. SWIDLER. On page 60 there is a summary of workload and positions required, on pages 59 and 60. I think page 59 is probably the one you have in mind, sir.

Mr. THOMAS. You have licenses. How many are there? I am talking about the number of licenses you are going to issue next year. You have it here in the table.

Mr. SWIDLER. We assume we will complete 109.

Mr. THOMAS. And if you are going to say 109 and you are going to collect $2 million how much is that for each one?

Mr. OSTERTAG. That is 1963 you are talking about?

Mr. SWIDLER. I am sorry, 173 in 1964; you are right. We are not really dealing with a fee for the issuance of a license but rather a fee for license administration which licensees pay every year. An important part of our responsibility is the administration of the provisions of the license, including safety, and we, as you know——

Mr. THOMAS. You mean it is an annual fee?

Mr. SWIDLER. Yes, sir; it comes in every year.

Mr. THOMAS. How much is it per year?

Mr. SWIDLER. About $2.5 million now.

Mr. THOMAS. I mean per company.

Mr. SWIDLER. It depends on the capacity of the licensed project. Owners of little projects pay a small amount, the big ones pay a larger amount.

Mr. THOMAS. Would the average fee be 500 or 2,000, 5,000?

Mr. SWIDLER. One way to estimate it is that we have about 300 major projects under license roughly, so that I think that the fee would be about $10,000 a licensee on the average.

Mr. THOMAS. The justification did not give the total number under license. Here is rate filings. Do you have a table showing how many you intend to license this year?

Mr. SWIDLER. This table shows the number; yes, sir. One hundred and seventy-three, if you will look, sir, at the fourth figure on the very last line.

Mr. THOMAS. Do you have a cumulative figure? We used that 2 or 3 years ago. I forget what it is. What is the total under license now?

Mr. SWIDLER. 280 major projects.

Mr. THOMAS. You haven't come up with it yet. Is the figure between 280 and 300 correct under license?

Mr. SWIDLER. Yes, sir.

NATURAL GAS INDUSTRY

Mr. THOMAS. Mr. Reporter, put page 15 in the record.

(The page follows:)

NATURAL GAS INDUSTRY

Comparative summary of activities

	1963 actual		1964 estimate		1965 estimate	
	Positions	Funds	Positions	Funds	Positions	Funds
A. Certificates of convenience and necessity	220	$1,870,297	212	$2,141,400	225	$2,378,000
B. Rate filings	59	502,088	56	568,100	56	585,000
C. Rate cases	366	3,107,754	338	3,425,000	351	3,680,000
D. Enforcement of uniform accounting	17	144,410	17	175,600	17	181,000
E. Gathering and analysis of data	15	127,195	15	154,900	15	159,000
Total activity	677	5,751,744	638	6,466,000	664	6,983,000

GROWTH OF COMMISSION STAFF—1956 THROUGH 1965

Mr. THOMAS. Put in the record the number of employees in the Commission starting with 1956. I wish you would check this out, Mr. Budget Officer, when you get back to your office, and see if it is correct. In 1956 you had 713 employees; 1957, you had 750; these are appropriated jobs; 1958, 742; 1959, 844; 1960, 853; 1961, 906; 1962, 963; 1963, 1,178; 1964, 1,148; 1965, you have a budget estimate here of 1,234. That is a pretty steady expansion is it not?

Mr. SWIDLER. Except for last year, sir.

Mr. THOMAS. Beg your pardon?

Mr. SWIDLER. Except for last year. Except for the current year, I should say.

Mr. THOMAS. You did not grow too much last year.

Mr. SWIDLER. No, sir.

Mr. THOMAS. And considering the annualization you did pretty well at that.

STAFFING FOR 1964

How many annualized jobs do you have in here for this year, in violation of the committee's instructions to you?

Mr. SWIDLER. This year as you know, sir, we have less than the number of annualized jobs. We got started on a higher level than we could annualize and when the appropriation finally came out we had to reduce staff by eliminating 48 people.

Mr. THOMAS. How long have those been on the payroll that you eliminated 30 days, 3 weeks, 6 weeks, less than 2 months, weren't they? You put on about 75 or 100 right off the bat. They were on the payroll less than 60 days in the fiscal year, weren't they?

Mr. SWIDLER. They weren't released in quite that way. Most of the people who were released were new employees, yes, sir; but not all.

Mr. THOMAS. They had all been annualized. They were put on the payroll in the last 30 or 60 days of the fiscal year. That was going back to 1962 and 1963. That was the same proposition.

Mr. SWIDLER. Sir, what we had done, and we evidently did not do it right, but what we did is to start recruiting as fast as we could once the previous appropriation bill for the year had been passed.

This did not give us a very long period to recruit because the appropriation bill, as you know, was not passed for several months after the fiscal year had started.

Mr. THOMAS. You are doing the opposite of most agencies. People seeking employment go by and file an application with the agency and the agency will keep it on ice for 4 or 5 months and keep a backlog of people looking for work.

Don't you do the same thing?

Mr. SWIDLER. We try to, yes, sir; but we had carried over from the previous year more people than the money appropriated for this year would enable us to keep on the payroll.

GAS INDUSTRY JUSTIFICATION

Mr. THOMAS. Here is your breakdown on page 15. We have put that in the record. This relates to your natural gas industry, certificates of convenience and necessity. You are going to increase it from

212 to 225 this year. Rate filings remain the same, 56 and 56 jobs; rate cases go from 338 to 351. Your accounting section is 17 and your data gathering and analysis is 15. I notice you wanted 12 to go out and study your backlog of reserves.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. Put pages 16, 17, and 18 in the record.

(The pages follow:)

NATURAL GAS INDUSTRY

In the past 2 years, the Commission has cleared up its huge billion-dollar backlog of pipeline rate cases and we are now reasonably current. We have ordered refunds to $550 million and reduced rates for the future by $95.7 million annually.

Our program for clearing up our pipeline backlog has been coupled with procedural reforms to make sure that another backlog does not accumulate. The Commission's interim price ceilings for producers have stabilized field prices of gas as contrasted with the pattern of increases in the past decade which resulted in doubling the wellhead price. The combination of procedural reform, rate moratoriums, and stabilization of field prices has greatly reduced the number of pipeline rate increase filings.

Elimination of the backlog has placed the Commission in a position to handle its pipeline rate work much more effectively than in the past. The Commission has initiated investigations to determine whether the existing rates should be reduced and pipeline earnings in several instances appear to be excessive. One voluntary rate reduction has already been filed as a result of this program.

The pipeline industry continues to grow and the applications filed for new construction, which are the industry "birth certificates," also continue to grow. These cases are becoming more complicated because (1) in some instances several pipelines have filed competitive applications to serve the same market which are combined in a single hearing, and (2) the particular construction may involve some new type of equipment such as use of jet aircraft engines as prime movers in compressor stations, or "first of its kind" projects such as the cryogenic in-ground liquefied gas storage project certificated during the last fiscal year (this project is now under construction by Transcontinental Gas Pipeline Corp. and represents the first commercial development of a project which will liquefy natural gas). These more complicated cases require more time for analysis and evaluation and require highly trained professional people. Here, too, the Commission has adopted new procedures to increase our productivity and enable us to handle the increased number of more complicated cases.

We are asking for additional staff to make a continuing review of the gas reserves of the pipeline companies, reserves upon which the 34 million gas consumers in the country depend for continuity of service. This work will enable us to speed the processing of new certificate applications because the adequacy of the reserves backing up the application will be fully known, or substantially known, at the time the application is filed. Prompt approval of new pipeline construction is of tremendous importance to the national economy. Pending applications before the Commission amounted to $1.1 billion as of January 1, 1964. Equally important, current reserve information is essential to the protection of consumers' long-term gas supply.

In 1965, the Commission will be moving ahead with its area rate program for fixing just and reasonable field prices in all parts of the country, an activity which the Commission has failed to discharge effectively to the detriment of consumers and the industry alike. A recent Supreme Court decision has given us encouragement to proceed with our area rate program to fix just and reasonable rates for all of the gas flowing in interstate commerce. The hearing before the examiner in the lead case involving the Permian Basin in Texas and New Mexico has now been concluded and the Commission expects to render its decision in this landmark case in the coming fiscal year. The hearing in the second case involving south Louisiana is well underway and we have initiated proceedings in the Hugoton-Anadarko and the Texas gulf coast areas. These four proceedings, when completed, will eliminate the backlog of cases for 75 percent of all the natural gas produced in this country. We estimate that we need 13 additional staff members to go forward with these important proceedings

and to process the other producer rate applications that currently are being filed.

In summary, we shall be able to take on this greatly increased workload in natural gas matters with a comparatively small increase in staff because we are reaping the fruit of an intensive effort in the past 2 years to develop the organizational and procedural devices required to utilize our manpower more effectively.

Mr. THOMAS (reading):

In the past 2 years, the Commission has cleared up its huge billion-dollar backlog of pipeline rate cases and we are now reasonably current.

I understand that is an understatement. You have nothing to do. The staff is running around wringing their hands trying to find something to do. As one fellow put it, he said it is in a devil of a mess, the emphasis on the mess.

We have ordered refunds of $550 million and reduced rates for the future by $95.7 million annually.

RATE CASES—WORKLOAD AND POSITIONS

How many people do you have in this rate section? They tell me they have nothing to do.

Mr. SWIDLER. Under rate cases we have now, or we are projecting, 351 positions.

Mr. THOMAS. That workload——

Mr. SWIDLER. Of course, that includes the producer rate program which is just beginning to gain momentum.

Mr. THOMAS. You have got half a dozen breakdowns under that but in your pipeline rate cases how many people do you have on the job? You used to set it out here in a separate classification.

Mr. BLACK. Twenty-four, for the pipelines themselves.

Mr. THOMAS. Put the pertinent part of this table on page 24 in the record.

(The material referred to follows:)

Rate cases—Summary of workloads and positions required

	On hand 1st of year	Number received	Total workload	Number completed	On hand end of year	Positions required
1963 actual:						
Pipelines	82	13	95	53	42	187
Independent producers	2,939	501	3,440	461	2,979	179
Total	3,021	514	3,535	514	3,021	366
1964 estimate:						
Pipelines	42	22	64	46	18	168
Independent producers	2,979	530	3,509	317	3,192	170
Total	3,021	552	3,573	363	3,210	338
1965 estimate:						
Pipelines	18	27	45	29	16	168
Independent producers	3,192	530	3,722	[1] 845	2,877	183
Total	3,210	557	3,767	874	2,893	351

[1] Includes 528 in Permian Basin area rate proceedings in which a final Commission decision will probably not be forthcoming until after July 1, 1964.

PIPELINE RATE CASES

Mr. THOMAS. This is cases on hand for the pipeline. The number on hand the first of the year for 1963 is 82; number received is 13; total workload, 95; number completed, 53; on hand, 42, and positions required, 187.

Let's see the picture after you skip a year. We are still talking about pipeline. On hand, beginning 1965, you had 18; received, 27; total workload, 45; number completed, 29; on hand end of the year—you are about out of seed corn—you only have 16 and you have 168 people. You certainly can cut that division in half.

Mr. SWIDLER. Well, sir, I think that is an exaggeration. There will be a great deal——

Mr. THOMAS. You mean your budget officer's figures or my statement?

Mr. SWIDLER. Your statement is "a little exaggerated" in stating that we could cut it in two, sir.

Mr. THOMAS. It might be a little high, maybe a 49-percent cost.

Mr. SWIDLER. There is a great deal of work for the pipeline rate staff.

Mr. THOMAS. Generally your big workload is over with.

Mr. JONAS. Mr. Chairman, would you yield?

Mr. THOMAS. Yes, sir.

Mr. JONAS. That is made apparent when you consider only the number of cases completed, 46 in 1964 with 168 people and projected only 29 cases for 1965, but you still want the same number of people.

Mr. SWIDLER. If I can explain that, in the first place——

Mr. THOMAS. In other words, in 1963 you completed 53 cases with 185 people and this year you are going to complete 29 cases with 168 people.

Mr. SWIDLER. The number of cases is not the only or the best index to the work that these people perform. The works involves not merely formal cases but the review of the current status of the pipelines so so that as their circumstances change we can determine whether their rates should be adjusted.

Mr. JONAS. I think you have a better answer than that because you could point out that your completed cases of independent producers will go up substantially.

Mr. SWIDLER. Yes, sir. That is a separate problem. We are now talking only about the staff for the pipeline rate cases. I was pointing out that our staff is engaged in a continuous analysis of the earnings position of the pipelines.

If we just wait until a pipeline files for rate increases I think we could get along with a smaller staff, but that would not be doing the whole job.

REFUNDS

Mr. JONAS. I had a question on 16.

This $550 million in refunds represented how many cases, too many to count?

Is that a large or small number of cases?

Mr. SWIDLER. I didn't hear the question, sir.

Mr. JONAS. Of this half billion in refunds, how many cases did that involve? It is $550 million refund.

Mr. SWIDLER. I think we are talking about perhaps 50 cases.

Mr. JONAS. Isn't a substantial part of that $550 million involved in one case, the *El Paso* case? How much was involved in that?

Mr. SWIDLER. El Paso involved about $150 million and the *Tennessee* case involved about $125 million.

Mr. JONAS. That is over half of it in two cases?

Mr. SWIDLER. $275 million.

Mr. JONAS. How long were those cases pending before the Commission?

Mr. SWIDLER. Each of them for a good many years. I cannot tell you exactly.

Mr. O'CONNOR. El Paso was pending 6 years.

Mr. THOMAS. What was that money drawing, 4 or 6 percent?

Mr. SWIDLER. Six and seven percent; some parts six, some seven. The amounts I have given you include interest.

Mr. JONAS. That is all I have. I thought it was true that the bulk of it was in a few cases.

Mr. SWIDLER. About half of it is in two cases; yes, sir.

PIPELINE RATE CASES

Mr. THOMAS. Insert the bottom of page 24 and page 25 in the record.

(The pages follow:)

PIPELINE RATE CASES

As we have previously mentioned, the Commission has reduced its backlog of pipeline rate cases to a current basis and has developed procedures to avoid the creation of a backlog situation in the future. However, existing moratoriums on rate increases will soon expire and there will be many cases which the Commission will need to initiate on its own motion to insure that rates are kept at the "just and reasonable" level as provided in the Natural Gas Act. There will be a sharp upsurge in section 5(a) cases (initiated by the Commission to reduce rates) as producer rates are stabilized and Commission action is needed to see that lower unit costs are passed on to consumers.

The number of actual pipeline rate cases estimated for 1965 represents only a small measure of the work that will be performed by the staff requested for pipeline rate work. In a practical sense, there is a "rate case" pending currently against all major pipeline companies because it is necessary to scrutinize their earnings level each year to insure that their rates remain just and reasonable under changing circumstances. In past years, we have been unable to make these reviews because our staff has been completely absorbed with the backlog of 4(e) rate cases, the applications by the pipeline companies for rate increases.

Our staff studies reveal that several pipelines may be earning in excess of a fair return and the staff is engaged in conferences with these companies, which hopefully will lead to voluntary rate reductions. One such pipeline company has already filed a voluntary rate reduction of $1.5 million annually, effective January 1, 1964. The staffwork required in each such investigation is comparable to the effort required to prepare for a rate case. Because we believe that many of these investigations will result in voluntary settlements rather than formal rate cases explains why our estimate of the number of cases is reduced from former years.

Mr. THOMAS. Let's put page 19 in the record.

(The page follows:)

CERTIFICATES OF CONVENIENCE AND NECESSITY

Summary of workloads and positions required

	On hand 1st of year	Number received	Total workload	Number completed	On hand end of year	Positions required
1963 actual:						
Pipelines	269	360	629	396	233	143
Independent producers	2,520	1,654	4,174	1,928	2,246	77
Total	2,789	2,014	4,803	2,324	2,479	220
1964 estimate:						
Pipelines	233	360	593	393	200	138
Independent producers	2,246	1,713	3,959	2,025	1,934	74
Total	2,479	2,073	4,552	2,418	2,134	212
1965 estimate:						
Pipelines	200	360	560	400	160	151
Independent producers	1,934	1,720	3,654	2,150	1,504	74
Total	2,134	2,080	4,214	2,550	1,664	225

WORKLOAD

Estimated receipts of certificate applications are based on the trend of growth in the gas industry. As indicated, the total number of applications will continue to increase. On the pipeline side the applications will involve a greater number of vigorously contested proceedings involving conflicting proposals for the same market as the major pipeline companies compete for the growth requirements of the great metropolitan areas. The Commission's responsibility for protecting the public interest will become more and more complex.

Mr. THOMAS. This deals with certificates of convenience and necessity. You have already taken a look at the pipeline. Let's look at independent producers now.

Take a look at 1963: On hand at the beginning of the year, 2,520; number received, 1,654. Total workload is 4,174; number completed, about half of it; 1,928 on hand. At the end of the year it was 2,246. You have 77 jobs. Let's skip and go down to 1965 to see what the estimate is. On hand, 1,934, independent producers; we have already looked at pipeline. Number received is 1,720; total workload, 3,654 against 4,174 a year earlier, completed, 2,150; you completed 1,928 the year before. On hand at the end of the year 1,504 and you have 74 people, a reduction of 3 over the year earlier.

Put page 19 and the reading material on page 20 and 21 in the record.

(The pages follow:)

PIPELINE CERTIFICATES

The important prerequisite in the expansion of the gas industry is the expeditious processing of certificate applications by the Commission. The Commission has speeded up its work in this area. In fiscal 1963, the Commission issued certificates for $686 million of new construction compared with $373 million the year before. These projects represent substantial contributions to the health of our economy. They have made natural gas available to many new communities as well as to meet the growing needs of existing pipeline customers.

The normal volume of certificate applications pending before the Commission represents large capital expansion investments. As of January 1, 1964, certificate applications for $1.1 billion of pipeline construction were pending before the Commission. The need for sufficient staff to facilitate prompt decisions is obvious.

The Commission is instituting new procedures to speed disposition of certificate applications. Pipelines will now be required to file complete information in support of their proposals at the time the certificate applications are filed. This will eliminate much preliminary work by our staff and speed the processing of the applications. Also, as described above, we have developed a procedure for keeping in current touch with the gas reserve situation of the pipelines so that we can be sure reserves are sufficient to support their applications for expansion. Thus, the question of adequate reserves to support pipeline expansion will no longer be an issue in each case and a major cause of delay in certificate cases.

The information submitted by the gas pipeline companies will involve 65 reports on 210 trillion cubic feet of gas which must be summarized and analyzed by the staff each year. The reports are of necessity voluminous, requiring as much as 3,700 pages, inclusive of field maps, for one company.

The development and implementation from the annual reports of information pertaining to 210 trillion cubic feet of natural gas from more than 90,000 producing gas wells and several hundred thousand oil wells that also produce gas is a tremendous workload. In addition, the data must also be updated regularly for about 4,000 new gas wells completed each year.

We are requesting additional staff of 13 positions for this work. The development of reliable data on a continuing basis is a formidable task but one which will pay big dividends in relation to this small staff increase.

It is planned to use electronic data-processing techniques to the fullest extent possible in developing gas supply data quickly and in useful form for proceedings before the Commission. In this way the staff requirements will be held to a minimum.

The new procedures and efficient use of staff should expedite pipeline certificate cases in 1965.

Mr. SWIDLER. I hope I made clear on the pipeline rate cases that the job of continuing supervision of pipeline rates is a different and bigger job than just handling those cases which are imposed on us by rate increase applications.

Mr. THOMAS. Where are your green sheets on your pipeline and independent producers? Where do we get a look at them?

Mr. CAPAR. I am not sure I follow the question. Do you mean the details——

Mr. THOMAS. For grade classification of employees.

Mr. CAPAR. I have a copy here, sir.

Mr. THOMAS. Your big table does not set that out. More than likely it is in here. It is on 11, I think.

Mr. BLACK. The top of page 11.

Mr. THOMAS. Where are the green sheets on these two?

Mr. SWIDLER. I have here a breakdown by subactivities.

Mr. THOMAS. That is exactly what we are looking for. We don't have it.

You don't have it by grades, either.

Mr. SWIDLER. Not by grades; no, sir.

Mr. THOMAS. Can anybody give it to us?

Mr. CAPAR. We can give it to you. We do not have it by grades, by pipelines, and producers. I have the total grades in the entire agency here.

TURNOVER IN THE FPC

Mr. THOMAS. We are dealing with certificates. For pipelines and independent producers, give us a little look at the quality or caliber of your personnel, what is their civil service status, what is the turnover throughout the agency generally? Do you know? Is it 15 or 16 percent?

Mr. CAPAR. I can work that up for the record.

Mr. THOMAS. Do you have it already worked up? Does anybody know?

Mr. SWIDLER. Apparently not, sir.

(The information follows:)

The turnover rate of the Commission is 18 percent annually, largely in the lower salaried positions.

PERSONNEL—BUREAU OF NATURAL GAS

Mr. THOMAS. Here is the bulk, certainly, of your power employment, your biggest Bureau. It is at least 40 percent. Your memory should indicate what grades these people are. Are they 10, 7, 9, and what is the turnover?

Mr. CAPAR. The natural gas section, sir, on page 11 will give you the bulk of people represented in the gas work. It will identify the grades.

Mr. THOMAS. You lump them in here: 315 GS–13 and below; that is wide open as a barn door. It does not give us much help. Are they 8's, 9's, 10's, 11's, or what?

Mr. SWIDLER. It is only broken down from 13 and above. We will break it all down for the record.

(The information follows:)

Personnel compensation data sheet—Bureau of Natural Gas

Operating title	GS-	Pipeline				Producers				Total			
		1964		1965		1964		1965		1964		1965	
		Number of positions	Amount	Number of positions	Amount	Number of positions	Amount	Number of positions	Amount	Number of positions	Amount	Number of positions	Amount
Chief of Bureau	18	1	$20,010	1	$20,010					1	$20,010	1	$20,010
Deputy Chief	17					1	$18,512	1	$19,011	1	18,512	1	19,011
Division chief	16	2	35,027	2	36,026	1	16,016	1	16,515	3	51,043	3	52,541
Assistant to chief	15	1	17,222	1	17,742	1	15,683	1	15,683	2	32,905	2	33,425
Section chief	15	5	82,470	5	85,070	5	84,030	5	86,630	10	166,500	10	171,700
Engineer	14	4	55,870	5	71,260	4	56,271	4	57,621	8	112,141	9	128,881
Economist	14	1	13,624	1	14,082					1	13,624	1	14,082
Geologist	14	1	14,976	1	15,436	1	13,624	1	14,082	2	28,600	2	29,518
Accountant	14	3	40,872	4	55,819	3	42,682	3	44,012	6	83,554	7	99,831
Public utility specialist	14	1	14,082	1	14,508	1	14,082	1	14,508	2	28,164	2	29,016
Accountant	13	7	84,882	7	87,507	6	72,756	6	75,006	13	157,638	13	162,513
Engineer	13	7	82,117	7	84,882	7	82,117	7	84,882	14	164,234	14	169,764
Geologist	13	3	36,378	3	37,503	2	24,252	2	25,002	5	60,630	5	62,505
Accountant	12	5	51,585	5	53,250	5	51,585	5	53,250	10	103,170	10	106,500
Engineer	12	7	72,219	8	84,534	8	82,536	8	85,200	15	154,755	16	169,734
Geologist	12	3	30,951	3	31,950	3	30,951	3	31,950	6	61,902	6	63,900
Public utility specialist	12	1	10,317	1	10,650					1	10,317	1	10,650
Public utility economist	12	2	20,634	2	21,300	1	10,317	1	10,650	3	30,951	3	31,950
Accountant	11	5	69,552	5	71,888	5	69,552	5	71,888	10	139,104	10	143,776
Engineer	11	17	147,798	18	156.222	17	147,798	17	152,762	34	295,596	35	308,984
Geologist	11	4	34,776	4	35,944	4	34,776	4	35,944	8	69,552	8	71.888
Public utility economist	11	2	17,118	2	17,680	2	17,118	2	17,680	4	34,236	4	35,360
Accountant	9	7	50,960	7	52,563	8	58,240	8	60,072	15	109,200	15	112,635
Engineer	9	13	100,594	13	103,558	13	100,594	13	103,558	26	201,188	26	207,116
Geologist	9	2	14,560	2	15,018	2	14,560	2	15,018	4	29,120	4	30,036
Economist	9	1	7,738	1	7,966	1	7,280	1	7,509	2	15,018	2	15,475
Various	[1] 8	72	405,427	74	406,399	73	411,059	74	406,400	145	816,486	148	812,799
Gross permanent positions		177	1,531,759	183	1,608,767	174	1,476,391	175	1,504,833	351	3,008,150	358	3,113,600
Lapse (deduct)			−75,565		−13,744		−72,835		−12,856		−148,400		−26,600
Extra day			11,253		5,787		10,847		5,413		22,100		11,200
Total net permanent			1,467,447		1,600,810		1,414,403		1,497,390		2,881,850		3,098,200

[1] GS-8 and below.

TURNOVER OF PERSONNEL

Mr. THOMAS. Do you have any idea what the turnover is in these two divisions of power? What is the breakdown of these two subdivisions in the Bureau of Natural Gas? Do you have any idea? Where is your personnel man?

Mr. SWIDLER. He is not here.

Mr. TRAINOR. We don't have it here by subdivisions. We can work it up and put it in the record.

(The information follows:)

The turnover rate of the Bureau of Natural Gas is 19 percent annually, largely in the lower salaried positions.

Mr. THOMAS. I am asking if anyone here has an idea of what it is.

Mr. TRAINOR. We have the whole range of grades from two up.

Mr. THOMAS. We have all of this high-powered staff here. The Commissioner has one or two special agents. Don't you know what goes on in your agency about your personnel problems?

Mr. SWIDLER. I am under the impression, sir, that our turnover is not out of line, but I could not give you a figure for it.

Mr. THOMAS. Do you know whether it is 18 percent, 15 percent, 10 percent, 9 percent?

Mr. SWIDLER. No, sir.

Mr. THOMAS. We have gone into rate cases pretty well.

ORIGINAL COST STUDIES OF PIPELINES

Let's put in your cost studies, page 26.

(The page follows:)

Original cost studies—Pipelines

Year	On hand 1st of year	Number initiated	Total workload	Number completed	On hand end of year
1963 actual	77	0	77	4	73
1964 estimate	73	4	77	8	69
1965 estimate	69	8	77	10	67

The foundation for any pipeline rate case is the determination of the rate base upon which the utility is permitted to earn a reasonable rate of return. The rate base is the original cost of the company's property devoted to public service less depreciation. Rate regulation cannot be solidly based without an audit of the recorded cost of the property in order to eliminate improper items. Because of the pressure of other work, these original cost studies were suspended from 1950 to 1960, resulting in a large backlog of plant investment which has not been examined. There are $7 billion of jurisdictional pipeline properties which are earning a return but which have not been subjected to Commission scrutiny. The Commission's staff is now engaged in an effort to catch up on its examination of the natural gas pipelines' property costs. When the backlog is eliminated in 1967, it is planned to keep this work up to date as additions and other changes occur in the property accounts of the pipeline companies.

GAS RESERVES

Mr. THOMAS. This is where you want 13 additional jobs to study reserves. How many people do you have studying reserves for your pipeline cases? You allege it will give you ready information when a pipeline comes in and you want to know whether he has a backlog. You are going to check him. The agency has been studying pipelines for a long time. Don't you have any of that information now?

Mr. SWIDLER. We have no comprehensive information on the reserve position of the pipeline. They introduce a case on their reserves whenever they come in with a major certificate application but it is just the reserve showing to support that particular certificate and it is not kept up to date.

In addition to holding up the issuance of certificates, and of course as you know we are trying now to dispose of these cases as quickly as possible and get these pipelines started and construction going as soon as possible, we do not have the data on which to feel assured that the consumer's stake in adequate gas reserves is being protected.

Mr. THOMAS. How much more are you going to get than you have?

Mr. SWIDLER. We will have a continuing inventory of pipeline reserves, something we don't have now.

Mr. THOMAS. You certainly have the information available in your office someplace, don't you?

Mr. SWIDLER. No, sir. We just have the ad hoc case put in on an individual case basis as the pipelines apply for certificates. There is no provision for a continuing master inventory of the pipelines' reserve position.

Mr. THOMAS. Are you saying by that then you want something to controvert the evidence presented to any particular case at hand?

Mr. SWIDLER. No, sir. I am saying we would like to take that issue out of these cases. We would like to know their reserve position before they file and then it won't be necessary, we hope, to hold up the certificate cases.

Mr. THOMAS. You are concerned with X case. If there is 2 billion cubic feet available throughout the United States, you want to know how much X has his hands on and can deliver in the next 25 years to your pipeline?

Mr. SWIDLER. Exactly.

Mr. THOMAS. How will you figure that out in advance until he puts it down in black and white?

Mr. SWIDLER. We will have it down in black and white every year.

Mr. THOMAS. How can you? You don't know what his application is going to state. You don't know where his reserves are. I doubt if he does until he files his application.

Mr. SWIDLER. They do not have a new set of reserves.

Mr. THOMAS. The information you are seeking I don't think is helpful.

Mr. SWIDLER. Pipelines don't abandon existing reserves each year and get a new set. It is a continuing thing. There will be abandonment of some fields, as they become depleted. They will add others to the system.

Mr. THOMAS. This fellow wants to add a new pipeline. Under your rules and regulations, you require him to file in his application, among other things, setting out x million number of cubic feet of gas, where he is getting it, where it is located, et cetera, and what he is paying for it. You require him to have a reserve of some number of cubic feet over a period of what, 20 or 25 years?

Mr. SWIDLER. In the past we have been requiring deliverability of at least 10 or 12 years.

Mr. THOMAS. What do you mean by "deliverability"? He has to have it tied up where he can get his hands on it, doesn't he?

Mr. SWIDLER. Yes, sir; but——

Mr. THOMAS. Or do you require that his pipeline is adjacent to a field where he can go in and perhaps get it?

Mr. SWIDLER. The question is not only how much is the total gas in the ground, but how fast can it be withdrawn in accordance with conservation principles so as to be able to take care of peakloads.

Mr. THOMAS. But as far as X pipeline application is concerned, you don't want to know how much is available in the area and how much is available in the United States. You want to know how much you have your hands on that you can deliver.

Mr. SWIDLER. Yes, sir. I believe you are thinking in terms of an altogether new pipeline.

Mr. THOMAS. Yes.

Mr. SWIDLER. That is not the typical situation. We now deal with expansions of existing pipelines for the most part.

Mr. THOMAS. Expansions and extensions?

Mr. SWIDLER. Extensions of existing pipelines so that all the information we accumulate has pertinence to any new extension or expansion of their systems. All we have to do is bring it up to date.

Mr. THOMAS. That is not tying the Commission up in a knot. It is when they come in with a brand new application wanting a brand new line. That is where your headache really is, isn't it?

Mr. SWIDLER. No, sir. It is on both. Even the major expansions have been major cases.

ENFORCEMENT OF UNIFORM ACCOUNTING

Mr. THOMAS. Let's take a look at the cost accounting. You want 17 positions. That is also what you have had. Who has audits this year?

Mr. SWIDLER. Our chief accountant, Mr. Rainwater, retired as of the first of the year.

Mr. THOMAS. Did Mr. Rainwater retire?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. You have filled the position?

Mr. SWIDLER. We have appointed a man who will be reporting on February 24; Arthur Litke. He is now with the GAO. He is an Associate Director of the Civil Audits Division of the GAO.

Mr. THOMAS. I don't recognize that name. Do you, Mr. Boland?

Mr. BOLAND. I don't believe so.

Mr. THOMAS. Compliance audits: The objective of the activity is to check the accounts of the pipeline companies to insure compliance. What is his staff? He has a staff in all of his activities of around 125 or 150, as well as I remember. Let's turn back to page 11 and see, gentlemen. Office of Accounting and Finance——

Mr. SWIDLER. We go up from 125 to 128.

Mr. THOMAS. It is 125 now?

Mr. SWIDLER. Yes, sir.

UTILIZATION OF ACCOUNTING POSITIONS

Mr. THOMAS. They are broken down. Can you break them down in one spot here for us? Can you read them into the record? How are

they broken down into divisions? Read them for the record at this point.

Enforcement and uniform accounting is set forth, here. You have 17 set out here for pipelines.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. Can you break it down?

Mr. CAPAR. For the accounting office?

Mr. SWIDLER. How did you want that broken down, sir?

Mr. THOMAS. By activities.

How does he use his 125 men? I would like to see it in one spot. Some of them are in gas. Some of them are in pipelines. Some of them are in hydroelectric. Some of it is in gas rate cases. Some of it is in electric power rates. Break it down.

Mr. SWIDLER. We will do that, sir.

(The information supplied follows:)

Office of Accounting and Finance—Utilization of positions

	Actual 1963	Estimate 1964	Estimate 1965
Natural gas industry:			
Certificates of convenience and necessity: Pipelines	3	2	2
Rate filings: Pipelines	1	1	1
Rate cases:			
Pipelines	31	24	24
Independent producers	2	2	2
Enforcement of uniform accounting:			
Compliance audits	7	7	7
Review of annual reports	7	2	2
Accounting review and regulation	0	5	5
Gathering and analysis of data:			
Gathering and analysis	5	6	6
Publications	2	2	2
Total, natural gas industry	58	51	51
Electric power industry:			
Regulation of rates:			
Rate investigation	2	3	3
Original cost studies	0	1	4
Regulation of finances and operations	2	3	3
Enforcement of uniform accounting:			
Compliance audits	1	4	4
Accounting regulations and accounts	5	4	4
Review annual reports	0	4	4
Gathering and analysis:			
Gathering and analysis	19	19	19
Publications	3	3	3
Total, electric power industry	32	41	44
Non-Federal hydroelectric projects: Licensed project accounting	36	33	33
Total, Office of Accounting and Finance	126	125	128

Mr. THOMAS. You have 125 people. You go up every year. Then we look a little further and we find out you are going over here and trying to get a certificate out of some fellow who has been sitting on some little creek in New England for the last 25 years and he wants to get a little money out of it.

ELECTRIC POWER INDUSTRY PUBLICATIONS

Here are publications (reading:)

The collection, analysis, and interpretation of such financial and operating data are necessary functions for the regulation of the natural gas industry; in addition, these data enable the Commission both to keep the public informed—

what part of the cost of your publications do you get back? They are not all throwaways, are they?

Mr. SWIDLER. No, sir. A good many of them are sold by the Government Printing Office, all the large ones.

Mr. O'CONNOR. $36,000 comes from the sale of publications.

Mr. SWIDLER. I do not think that includes the amount received by the Government Printing Office. That is only what we receive and return to the Treasury.

GAS INDUSTRY CENSUS

Mr. THOMAS (reading):

The Commission expects to conduct a gas industry census in 1964, and continue through 1965, in collaboration with the Bureau of the Census. This will be the first such undertaking since natural gas supplanted manufactured gas as a domestic fuel. The census will be conducted by mail and will require a minimum of manpower.

What is the object of it?

Mr. SWIDLER. The same object as in any other business census, to find out the status of the industry.

Mr. THOMAS. The stove manufacturer does not make a stove made out of coal or natural gas. It is still gas. It is still gas. Finally, this is for the use and benefit of, among other people, the manufacturers of a gas stove and I guess a hundred other people. I do not understand the purpose of breaking it down between artificial gas and natural gas. After all, it is gas, isn't it?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. The same stove uses both.

Mr. SWIDLER. There would be very little manufactured gas so far as the public supply is concerned. I think this census is primarily of the natural gas industry. Of course, it would cover not only the wholesale end, but the whole natural gas industry and the form of the questionnaire will be determined largely by the Bureau of the Census in order to fit into its overall census.

ELECTRIC POWER INDUSTRY

Mr. THOMAS. Let's take a look at electric power. Put pages 33 and 34 in the record.

(The pages follow:)

ELECTRIC POWER INTRODUCTION

The Commission's 1965 electric power budget request is required to meet a rapidly growing workload in the important area of wholesale electric rate regulation and to permit a continuation of our program to encourage stronger interconnections and closer coordination between electric power systems to lower costs. The experience our staff has gained in the national power survey will pay dividends in encouraging the Nation's power systems to improve their efficiency and achieve reductions in costs which are the key to lower rates for the benefit of consumers.

The Commission needs additional staff to carry out its full responsibilities with respect to the growing number of electric utilities subject to its jurisdiction. In the last fiscal year we published for the first time a list of 189 companies classified as "public utilities" by the Commission. The Commission has not previously exercised its jurisdiction over many of these companies and several major hearings on the issue of jurisdiction are now underway and more will undoubtedly be

required. The Nation's electric power systems are rapidly becoming a single interconnected network in interstate commerce with the wholesale rates of almost all large power companies in the country subject to our scrutiny. It is obvious that our electric rate workload is one of major proportions and will require additional staff if we are to provide assurance of low-cost power to the thousands of municipal, cooperative, and private power distributors throughout the country.

The Commission is also asking for sufficient staff to be able for the first time in its history effectively to license hydroelectric projects in the public interest. The Commission has learned through painful experience that without adequate and current basinwide plans it cannot properly discharge its responsibility to license projects which are "best adapted to a comprehensive plan" nor give Congress the impartial and expert advice on water resource projects which Part I of the Power Act intended. Some 105 license applications for major projects with a total installed capacity of more than 9 million kilowatts and a total estimated construction cost of about $1.9 billion were pending as of January 1, 1964, many of them for projects on rivers that are not now covered by adequate plans of development. Basinwide plans are also needed in considering recommendations to Congress for recapture of those licensed projects whose licenses soon begin to expire and in considering Commission recommendations for Federal development.

To meet these needs, the Commission proposed to revitalize its licensing work by expanding and reorganizing its River Basin Division for a program of water resources appraisals for hydroelectric licensing. The appraisals would be based to the maximum extent on utilizing the studies of other agencies, supplemented by FPC studies only to the extent necessary to meet the Federal Power Commission's licensing program needs.

Mr. THOMAS. In the last fiscal year we published for the first time a list of 189 companies classified as "public utilities by the Commission." [Reading:]

The Commission is also asking for sufficient staff to be able for the first time in its history effectively to license hydroelectric projects in the public interest.

You are not speaking of non-Federal projects, are you?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. What do you mean effective? You always license non-Federals. These are little bitty Federal projects you are talking about. They have been in existence 25 or 30 years. They are sitting on some creek up in good old New England. That is what you are doing.

Mr. SWIDLER. What we are trying to say, sir——

Mr. THOMAS. There is a good case of featherbedding. It is the antithesis of it, going out making work. I guess it is featherbedding.

Mr. SWIDLER. Let me try to explain that if I may, Mr. Chairman. The Federal Power Act has a standard of comprehensive development set forth in section 10(a).

Mr. THOMAS. I know. This is not the first year you have been doing it. You have been doing it for a couple of years since you have been over there.

Mr. SWIDLER. But as a practical matter we have never had comprehensive plans to which to relate these projects. We have not been able really——

Mr. THOMAS. What good do you accomplish when you do all this?

Mr. SWIDLER. Sir, there is a great difference between an optimum development of our natural resources——

Mr. THOMAS. Some of those fellows get up there and use their own power. Maybe they supply a few neighbors or some little village but as far as interstate commerce is concerned they are not in it, never have been in it, and the only reason you have jurisdiction is because

it is a stream that is not even navigable. They tell me in floodtime if it will float a 2-inch log you have jurisdiction.

Mr. SWIDLER. You are talking about a somewhat different problem. I would like to come to the question you are raising, too, but my basic point is that in order to do the job that the statute contemplates, we must have a conception of the proper way to develop each of the country's rivers so that we do not operate in the dark when we issue these licenses.

So far as the small existing projects are concerned, as you know, we recommended to Congress and fought vigorously to persuade Congress to agree to a virtual exemption of small projects. The exemption at first was in the 100-horsepower range and we asked Congress to increase it to 2,000 horsepower. The amendment which was passed in 1962 enables us to use a simple form of license which requires no expense and no redtape for small projects. We are not trying to do any empire building which does not pay off in the public interest.

Mr. THOMAS. When we get to the big ones, there is no argument with you. [Reading:]

Some 105 license applications for major projects with a total installed capacity of more than 9 million kilowatts and a total estimated construction cost of about $1.9 billion were pending as of January 1, 1964.

These are more or less your big ones.

Mr. SWIDLER. The new applications are for the big ones. That is right.

Mr. THOMAS. You have been studying that. You have eight or nine regional offices. For years and years this is all they did. Your activities under power were here in the District of Columbia. Those basins have not changed one iota today over what they were 30 years ago. They have been studying them every year. You have had 200 or 300 people studying them.

Mr. SWIDLER. I bet the basins in Texas have changed a lot. Has nothing changed in Texas river basins in the last 30 years?

Mr. THOMAS. We don't have enough rain down there to do that.

SUMMARY OF ELECTRIC POWER INDUSTRY

Mr. JONAS (presiding). Let's put page 35 in the record.

(The page follows:)

ELECTRIC POWER INDUSTRY

Comparative summary of activity

	1963 actual		1964 estimate		1965 estimate	
	Positions	Funds	Positions	Funds	Positions	Funds
A. Regulation of rates	32	$322,966	53	$560,000	78	$878,000
B. Regulation of finances and operations	22	222,463	22	241,000	22	251,000
C. Enforcement of uniform accounting	10	100,503	16	175,300	16	182,000
D. Power system analysis	84	848,069	58	624,400	58	650,000
E. Interconnection and coordination	19	191,978	19	208,100	19	217,000
F. Gathering and analysis of data	30	303,768	30	317,600	30	342,000
Total activity	197	1,989,747	198	2,136,000	223	2,520,000

Mr. JONAS. That is a comparative summary of activity of the Commission with respect to the electric power industry; is that correct?

Mr. SWIDLER. Yes, sir.

Mr. JONAS. You have six different activities.

Mr. SWIDLER. Yes, sir.

Mr. JONAS. First, the regulation of rates. You want to go up from 32 people in 1963 to 53 people in 1964 and then to 78 positions in 1965.

Mr. SWIDLER. Yes, sir.

Mr. JONAS. That is an increase from $569,600 in 1964 to $878,000 in 1965.

That is the only activity in which you are asking for increased positions.

Mr. SWIDLER. Yes, sir, for the reasons I mentioned.

Mr. JONAS. For the reasons already stated and are in the record.

The other activities are regulation of finances and operations, enforcement of uniform accounting, power system analysis, interconnection and coordination, and gathering and analysis of data. They remain constant as far as positions are concerned. There is some increase in cost but that is due to the pay act and in-grade promotions?

Mr. SWIDLER. Yes, sir.

Mr. JONAS. The total cost of these activities goes up from $1,989,747 in 1963 to $2,136,000 in 1964 and $2,520,000 in 1965.

Once you install a uniform system of accounting, why do you need that many people to continue working in the field? Is it a question of enforcing?

Once you force an adoption or encourage adoption of a uniform system, it is adopted. Then you do not have any problems of policing, do you?

Mr. SWIDLER. Yes. There are substantial problems of policing because the entries are frequently not made in accordance with the FPC system of accounts. We find that it takes a certain amount of sticking with it to keep the accounts in accordance with the system that we prescribe. By keeping up with it currently, any time we need to rely on the utilities' figures they are available without having to go back many years to check them out.

Mr. THOMAS. Did you point out here your only increase is from 53 to 78 in your rate cases?

Mr. JONAS. Yes, sir.

REGULATION OF RATES

Mr. THOMAS. I have underlined something here at the bottom of page 36, which we will include in the record. Also include 37.

(The pages follow:)

REGULATION OF RATES

Vigorous action by the Commission over the past 2 years to exercise its responsibility for the regulation of wholesale electric rates has resulted in a rapid expansion in rate workload and operations. The Commission received 1,882 wholesale rate filings in fiscal year 1963, and we are continuing our efforts to obtain compliance with the filing requirements of the Federal Power Act.

Revised regulations have been issued requiring electric utilities to support rate filings with cost and other pertinent information that will facilitate meaningful Commission review and eliminate the need for extensive correspondence

and fieldwork by our staff. Recently, for the first time in history, a list of the major public utilities subject to the Commission's jurisdiction was published. A thoroughgoing review of all electric rate schedules presently on file is being made with a view toward eliminating excessive or discriminatory rates and unreasonable provisions in these rate schedules. The Commission has initiated 21 formal rate cases dealing with failures to file, restrictive provisions and dual rates, refusals to serve, and unlawful rate levels and these cases are now in various states of completion and new cases are being initiated almost every week. The completion of these cases will require a great deal of work by our professional staff of lawyers, engineers, and accountants, and most of them will result in formal hearings. These will establish the precedents that will enable the Commission to handle the nationwide job of wholesale rate regulation with a minimum number of people.

The electric power industry is continuing its rapid movement toward interstate power pools. The national power survey has encouraged the industry to accelerate this trend toward interstate operations which permit lower cost operations. The Commission requires an adequate staff to keep pace with the larger number of interstate rates and the increased opportunities of the regulatory process to effect rate reductions. The present staff must be increased to deal with an industry whose interstate operations are showing such dynamic growth. The small staff we are requesting will be required in 1965 to regulate the wholesale rates for the Nation's largest industry, with assets of more than $70 billion and monthly revenues exceeding a billion dollars. The public benefits of effective regulations are truly enormous because an abundant supply of electric power at reasonable rates is an essential ingredient of a dynamic growing economy.

The United States has entered an era in which the cost of electric power can be substantially reduced through interconnected power pools covering many States. The lower cost power from these pools must be made available at reasonable rates to the many small utilities, public and private, whose service areas are not large enough to enable them to generate their own power in large plants which are much more economical than small ones. The assurance of power by the long-term fulfillment of the Commission's responsibilities will provide an alternative for large investments in plants of relatively low efficiency which are justified only when low-cost power on fair terms cannot be guaranteed by effective wholesale rate regulation.

Mr. THOMAS (reading):

The Commission has initiated 21 formal rate cases dealing with failures to file, restrictive provisions and dual rates, refusals to serve, and unlawful rate levels and these cases are now in various states of completion and new cases are being initiated almost every week.

NATIONAL POWER SURVEY

Mr. THOMAS. When were you going to wind up that national power survey you started?

Mr. SWIDLER. This fiscal year, we hope, sir.

Mr. THOMAS. Are you going to reduce the budget next year? How many people are doing this work?

Mr. SWIDLER. We have 24 people on the work now.

Mr. THOMAS. I did not notice any reduction of 24 people.

Mr. SWIDLER. Fourteen of them were borrowed from other work to which they would be returned, from the power requirements and supply, where their studies are now far behind. Ten would be in a continuing effort to encourage interconnections so as not to lose the momentum that has been built up by the survey.

ELECTRIC RATE REGULATION

Mr. THOMAS (reading):

The Commission requires an adequate staff to keep pace with the larger number of interstate rates and the increased opportunities of the regulatory process to effect rate reductions. The present staff must be increased to deal with an industry whose interstate operations are showing such dynamic growth.

It has been testified to this morning that about 10 percent of the power produced in the United States is under the jurisdiction of Federal Power Commission and the other 90 percent, isn't it? [Continues reading:]

The small staff we are requesting will be required in 1965 to regulate the wholesale rates for the Nation's largest industry, with assets of more than $70 billion and monthly revenues exceeding a billion dollars. The public benefits of effective regulation are truly enormous because an abundant supply of electric power at reasonable rates is an essential ingredient of a dynamic growing economy.

We used the figure 50 this morning.

Mr. SWIDLER. That was in error.

Mr. THOMAS (continuing reading):

The United States has entered an era in which the cost of electric power can be substantially reduced through interconnected power pools covering many States—

that is, provided they want to go in interstate commerce.

ELECTRIC RATE CASE WORKLOAD

We will put the top of page 40 in the record, "Summary of workloads and positions required."

(The page follows:)

Rate cases—Summary of workloads and positions required

	On hand 1st of year	Number received	Total workload	Number completed	On hand end of year	Positions required
1963 actual	8	6	14	2	12	16
1964 estimate	12	11	23	16	7	25
1965 estimate	7	16	23	18	5	36

Mr. THOMAS. You speak of your rate cases. You go into fiscal 1963 with eight cases. You initiate six new ones. It gives you a total of 14. You only completed two that year. Somebody was dragging his feet.

Positions required, 16. You go into 1965 with 7 and initiate 16. You get rid of 18. You drop down to five at the end of 1965.

Positions required, 36, a 50-percent increase in 1 year. Your workload is just the same.

Mr. SWIDLER. Our completions are not good. We are seriously understaffed. There is a great deal to be done.

Mr. THOMAS. You have no backlog. You go into the fiscal year with seven cases.

Mr. SWIDLER. We began fiscal 1964 with 12.

Mr. THOMAS. Can you imagine that this Chairman wants to work himself out of business?

Mr. SWIDLER. Twelve cases, sir.

Mr. THOMAS. You will work yourself out of business and have no seed corn here. On hand at the beginning of the year only seven.

Mr. SWIDLER. Twelve, sir. I am sorry; you are talking about 1965; that is seven.

RATE INVESTIGATION WORKLOAD AND COST STUDIES

Mr. THOMAS. Put the table at the top of 41 in the record, and also the table in the middle of page 42.

(The tables follow:)

Rate investigations—Summary of workloads and positions required

	On hand 1st of year	Number initiated	Total workload	Number completed	On hand end of year	Positions required
1963 actual	2	5	7	1	6	2
1964 estimate	6	24	30	20	10	10
1965 estimate	10	30	40	25	15	21

Original cost studies

	Number completed	Positions required
1963 actual	0	0
1964 estimate	1	1
1965 estimate	3	4

REGULATION OF FINANCES AND OPERATIONS

Mr. THOMAS. We will put page 43 in the record beginning with the regulation of finances and operations.

(The page follows:)

Regulation of finances and operations—Summary of workloads and positions required

	On hand 1st of year	Number received	Total workload	Number completed	On hand end of year	Positions required
1963 actual	2	165	167	159	8	22
1964 estimate	8	220	228	220	8	22
1965 estimate	8	238	246	240	6	22

The performance of regulatory duties prescribed by section 201, 202, 203, 204, and 305 of the Federal Power Act, and in Executive Order 10485, includes the following functions: Temporary connections during emergencies; exportation of electric energy; issuance of permits to construct and maintain facilities at international borders; disposition of property, consolidations, or purchase of securities; issuance of securities or assumption of liabilities; interlocking directorates; and jurisdictional determinations.

Mr. THOMAS. Summary of workloads and positions required. You have 22 positions. You show completed cases, 240, about 10 cases per person. This is all your auditing division work, is it not?

Mr. SWIDLER. No, sir.

Mr. THOMAS. Who does this?

Mr. SWIDLER. It is done by the lawyers, accountants, and engineers.

Mr. THOMAS. Where are your green sheets? This is under Mr. Rainwater's division, is it not?

Mr. SWIDLER. No, sir, this is in power.

Mr. THOMAS. Still it is one of his divisions, which is why I called for a breakdown of his 125 people. Where is this?

Mr. CAPAR. This is regulation of finance. Three in the Office of Finance, two in the Office of the General Counsel, four in Administration, seven in Power, two in the Office of Economics.

Mr. THOMAS. That is Brother Rainwater?

Mr. CAPAR. Mr. Rainwater has three; seven in Power. That is the biggest group.

LEGAL STAFF

Mr. THOMAS. How many lawyers are scattered throughout, not in the Office of the General Counsel but the lawyers in all divisions? How many are in the Chief Counsel's office?

Mr. SOLOMON. 120 people in the Office of the Chief Counsel. About 78 lawyers.

Mr. THOMAS. Scattered throughout the agency how many do you have?

Mr. SOLOMON. Excluding the Commissioners' legal assistants——

Mr. THOMAS. We want them, too.

Mr. SOLOMON. Five lawyers for the Commission. Five lawyers doing opinion writing work. My lawyers and the hearing examiners. There are no lawyers in our agency scattered in the Bureau of Power or Natural Gas.

Mr. THOMAS. You do not have them scattered on the payroll throughout the agency?

Mr. SWIDLER. We do not have that system.

Mr. SOLOMON. We followed the Hoover Commission report and all lawyers except those two general categories are in the Office of the General Counsel.

Mr. THOMAS. You have about 85 lawyers?

Mr. SOLOMON. That is right, roughly.

Mr. O'CONNOR. 105.

Mr. SWIDLER. These other categories do not serve as part of the legal staff. They are the opinion writers and assistants to the Commissioners.

Mr. THOMAS. How do you find these people? How do you hire them? Is it under civil service?

Mr. SWIDLER. Are you talking about the lawyers?

Mr. THOMAS. Yes.

Mr. SWIDLER. The lawyers are a special schedule under civil service.

Mr. SOLOMON. Schedule A, subject to the Classification Act, but they are not hired pursuant to civil service. As you may remember, there used to be a Board of Legal Examiners but Congress prohibited that. They are now hired by the agency direct.

Mr. THOMAS. I wondered whether you were living up to that prohibition we carried in the bill. After all, you do your own hiring and firing. You do not have to go through civil service for the lawyers.

Mr. SOLOMON. That is right; they have to be classified by civil service but we do our own hiring and firing.

Mr. SWIDLER. Assistants to the Commissioners are schedule C.

Mr. THOMAS. By that you mean——

Mr. SWIDLER. Not under civil service at all, subject to removal.

Mr. THOMAS. They get the benefits of civil service and have a civil service classification but they are subject to removal at the wish of the Commission, and that is it.

Mr. SWIDLER. That is right, sir.

Mr. O'CONNER. These new additional people in the Commissioners' office will be the same way.

ENFORCEMENT OF UNIFORM ACCOUNTING

Mr. THOMAS. Going to the Enforcement of Uniform Accounting, we will put pages 45 and 46 in the record.

(The pages follow:)

Enforcement of uniform accounting—Summary of workloads and positions required

	Total workload	Number completed	On hand end of year	Positions required
1. Compliance audits:				
1963 actual	167	0	167	1
1964 estimate	202	1	201	4
1965 estimate	201	6	195	4
2. Other (review of annual reports, accounting regulations, and actions):				
1963 actual	200	200	0	9
1964 estimate	200	200	0	12
1965 estimate	200	200	0	12

NOTE.—Workload data on review of annual reports only.

Electric rate regulation demands that data submitted in rate proceedings be reliable for accurate determinations. Annual reports filed by the companies must also be uniform and consistent in nature to insure the validity of the Commission's published statistics on the electric industry.

1. Compliance audits

Compliance audits were initiated in 1964 in connection with the separate program of original cost studies as a prerequisite to effective rate regulation. The backlog of 202 companies awaiting compliance audits requires the Commission to strengthen this function if the backlog is to be reduced and companies are to be audited every 3 years as a minimum. The staff will initiate one audit in 1964 and will participate extensively in the planning, scheduling, training, and orientation required to initiate the program and increase the number of audits to six in 1965.

2. Other

Since the Commission's jurisdiction over interstate electric utilities was established, reviews of the annual financial reports are made as a check on compliance with the Commission's prescribed system of accounts. Where violations are discovered, action is instituted through correspondence or conferences to correct the deficiencies.

Drafting of revisions and interpretations of the Commission's uniform system of accounts, other accounting regulations, and design of financial report forms are also performed under this program. Reviews are made of proposed accounting for acquisitions and sales of utility property, amortization of financing costs, and special accounting proposals. These require approval of the Commission before being placed into effect.

Mr. THOMAS. In 1964 you have a backlog of 202 companies awaiting compliance audits. You say that this requires the Commission to strengthen this function. Who are these 202 companies? Are these

big non-Federal projects or are they little hydroelectric Federal projects sitting up on some little creek? When you get through, you do not have a shirttail full of power wrapped up in it.

There was one case we had in Michigan a few years ago. The company moaned and groaned and wrote two or three letters. You have sent more people out there than they had employees. Is that the nature of these cases?

Mr. SWIDLER. No, sir. We are trying all the time to analyze——

Mr. THOMAS. Give us a list of these 202 companies. Where are they located? Let us see how much power they generate.

Mr. SWIDLER. I have that list here. I will be glad to supply it.

Mr. THOMAS. Read us some from the list. How much power do some of them generate? Do you have any big ones there?

Mr. SWIDLER. Yes, sir, some of the largest. Alabama Power Co.

Mr. THOMAS. Is that one of of the small units? That is not the Alabama Power Co., is it? They have a good many units. Does that include all units?

Mr. SWIDLER. This is the whole of the company.

Mr. THOMAS. Where are they located? Are they Federal hydroelectrics or non-Federals? Are they steam, or what?

Mr. SWIDLER. There are some of each. This includes practically all the large companies of the industry.

Mr. THOMAS. This figure here, a backlog of 202 companies awaiting compliance audits. Do you mean to say that 202 companies deny the jurisdiction of the Federal Power Commission or have they been sending you in reports and you say, "Well here is one we do not like, we want more information." Do you call that a case of noncompliance?

Mr. SWIDLER. First, I do not suggest that this means we are going to audit 200 companies in the year. This does mean that as to practically every company in the whole industry we consider——

NUMBER OF POWER COMPANIES

Mr. THOMAS. You do not have but 280 power companies under your jurisdiction all together, do you? How many are under your jurisdiction?

Mr. SWIDLER. We list 189, but they are all large. There are about 400 or 450 private companies in the industry, I believe.

Mr. THOMAS. How many under your jurisdiction? You gave the figure this morning.

Mr. SWIDLER. One hundred and eighty-nine, sir.

Mr. THOMAS. Is that all the power companies under your jurisdiction, 189?

Mr. SWIDLER. No, sir. Those are with revenues over a certain base amount, the larger companies.

Mr. THOMAS. How many companies do you have in your jurisdiction?

Mr. SWIDLER. I do not know. I do not believe we have analyzed the status of the little ones, just the big ones so far.

Mr. THOMAS. Do you have an idea how many the number is, disputed and otherwise?

Mr. SWIDLER. I would hesitate to guess, but there are a total of about 400 or 450 companies in the industry. I would venture to say that the 189 big ones included most of those that would ultimately be determined as being under our rate jurisdiction.

Mr. THOMAS. If you only had 10 percent of the total output of electric current in the United States under your jurisdiction, how could you have 189 of the big ones out of a total of 450? Those figures do not quite jibe.

Mr. SWIDLER. The 189 companies would account for 90 or 95 percent of the electric power business in the United States. The remaining couple of hundred companies are very small in comparison.

ELECTRIC POWER INDUSTRY PUBLICATIONS

Mr. THOMAS. Where is the list of those publications? It is back under "Other objects." We will put pages 57 and 58 in the record.

(The pages follow:)

PUBLICATIONS

The Commission's regular publications containing information about the electric power industry are listed below. Extensive revisions are planned in these during 1964 and 1965 to improve their usefulness to Government, industry and consumers and as a regulatory aid to the Commission.

RATE STATISTICS

Typical Electric Bills, Annual.
All-Electric Home Survey, Annual.
National Electric Rate Book, Annual.

POWER STATISTICS

Production of Electric Energy and Capacity of Generating Plants, Monthly and Annually.
Electric Utility System Loads, Monthly.
Consumption of Fuel for Production of Electric Energy, Monthly and Annually.
Sales of Electric Energy by Class of Service, Monthly.
Steam-Electric Plant Construction Costs and Annual Production Expense, Annual.
Hydroelectric Plant Construction Costs and Annual Production Expense, Annual.
Electric Facility Maps.
Transmission Lines Placed in Service.
Interstate Flows of Energy, Annual.

FINANCIAL AND CORPORATE STATISTICS

Statistics of Electric Utilities in the United States, Privately Owned, Annual.
Statistics of Electric Utilities in the United States, Publicly Owned, Annual.
Monthly Financial Statistics, Electric.
Electric Utility Depreciation Practices.

Mr. THOMAS. Take your list and put the number of copies you print, the sale price or if they are giveaway, the revenue you get, and what they cost.

(The information supplied follows:)

Electric publications

	Actual, fiscal year 1963						Estimate, fiscal year 1965, cost to produce
	Sales price	Cost to produce	Number of copies for FPC	Revenues collected (by FPC)	Number of copies ordered by Superintendent of Documents	Revenues collected (Superintendent of Documents)	
Contract printing:							
Typical electric bills	$0.60	$826	1,000	$60	3,000	$1,500	$800
All-Electric Homes, Annual Bills	.20	391	1,500	20	3,000	600	1,200
National Electric Rate Book (50 State sections):							
Each	.25	4,600	225	.....	1,000	5,600	4,100
Subsection	8.00	.....	.....	.....	.....	.....	.....
Electric Power Statistics (monthly subsection)	2.50	1,000	225	.....	1,000	2,000	2,000
Includes—							
Production of Electric Energy and Capacity of Generating Plants in the United States, monthly and annually	.....	.....	.....	.....	.....	.....	.....
Electric Utility System Loads, monthly	.....	.....	.....	.....	.....	.....	.....
Consumption of Fuel for Production of Electric Energy, monthly	.....	.....	.....	.....	.....	.....	.....
Sales of Electric Energy by Class of Service, monthly	.....	.....	.....	.....	.....	.....	.....
Steam-Electric Plant Construction Costs and Annual Production Expenses	1.25	1,320	350	50	2,000	1,625	1,300
Hydroelectric Plant Construction Costs and Annual Production Expenses	.60	350	750	15	1,000	480	700
Statistics of Electric Utilities in United States, Privately Owned	2.25	3,116	375	115	1,500	2,790	3,500
Statistics of Electric Utilities in United States, Publicly Owned	1.00	1,329	500	50	1,500	1,300	1,000
Total, contract printing by GPO	.....	12,932	.....	310	.....	15,895	14,600
FPC plant printing:							
Monthly Financial Statistics, press release	.....	.....	.....	.....	.....	.....	250
Electric Utility Depreciation Practices	.....	.....	.....	.....	.....	.....	380
Transmission Lines Placed in Service	.....	.....	.....	.....	.....	.....	7
Interstate Flows of Energy	.....	.....	.....	.....	.....	.....	70
Total, FPC plant printing	.....	.....	.....	.....	.....	.....	707
Grand total, electric publications	.....	.....	.....	.....	.....	.....	15,307

Mr. THOMAS. What does this entire printing bill for power cost you?

Mr. SWIDLER. We will try to provide that for the record.

PRINTING AND REPRODUCTION

Mr. THOMAS. I do not see any way to break it out of your "Other objects." You did it one time. You had a much bigger chart than the one you have on page 11. It is all together. Do you have a horseback opinion? Your entire printing bill for this year is $142,000 against $110,000 last year, an increase of $32,000. Would you hazard a guess what part is for power?

Mr. SWIDLER. No, sir. I will have to try to get the accountants to break that down.

Mr. THOMAS. Take your table on page 58 and make a table out of it.

Mr. CAPAR. I understand.

Mr. O'CONNOR. That figure is printing and reproduction, which I assume is reproduction of our opinions, which are the most numerous of our publications.

Mr. THOMAS. You have an item in there for that.

Mr. O'CONNOR. I would think most of it would be reproduction of our opinions.

Mr. SWIDLER. And opinions of the hearing examiners and the briefs and pleadings of our counsel in all cases. Most of it relates to just the——

Mr. THOMAS. Your figure of $80,000, that covers what part of your publications?

Mr. CAPAR. That covers both power and gas publications.

Mr. THOMAS. Let us see what your opinions cost. Turn to "Other objects." You set it out here.

Mr. SWIDLER. We have an item 24.

Mr. THOMAS. On page 95 you show "Printing and reproduction." You say although an increase of $32,000 over 1964 will be required in 1965, experience has shown that actual cost is invariably higher than the estimates. What do your opinions cost? Does anybody have a figure on that? You got your annual report. What does it cost?

Mr. CAPAR. The annual report cost $2,500.

Mr. THOMAS. Are you figuring on binding any of your opinions this year?

Mr. CAPAR. $51,500 for opinions and decisions.

Mr. THOMAS. This year?

Mr. CAPAR. For 1965.

Mr. THOMAS. How many volumes?

Mr. CAPAR. Volumes 32 and 33, and binding volumes 27 and 28.

Mr. THOMAS. $51,000. How often do you do this, every year?

Mr. CAPAR. No, sir. We did not do the printing this year that we intended to do.

Mr. THOMAS. How many volumes are you behind from being current?

Mr. CAPAR. On binding, in 1965 we will print the 1962 volume. We are behind 1963 and this coming year, sir.

Mr. THOMAS. Is there any pressing need for that right now, gentlemen?

Mr. O'CONNOR. I think one of the resolutions passed by the Federal Power Bar Association urged us to bring the bound volumes up to date.

Mr. SWIDLER. The practitioners before our agency, of whom there are a considerable number, about 600 members of the Federal Power Bar Association, have, of course, a great need for the volumes of our opinions.

Mr. THOMAS. Do you license or certificate the brothers?

Mr. SWIDLER. No, sir. Anyone can practice before us. We have a very able and very active bar.

NON-FEDERAL HYDROELECTRIC PROJECTS

Mr. THOMAS. Let's turn to "Non-Federal hydroelectric projects." Insert page 59 in the record.

(The page follows:)

Non-Federal hydroelectric projects—Comparative summary of activity

	1963 actual		1964 estimate		1965 estimate	
	Positions	Funds	Positions	Funds	Positions	Funds
A. Licensing	88	$933,190	97	$1,047,300	115	$1,313,000
B. Supervision of licensed operations	21	221,340	23	242,500	28	322,000
C. Headwater benefit determination	19	126,797	19	198,400	19	219,000
D. Licensed project accounting	40	468,263	36	396,800	36	403,000
Total	168	1,749,590	175	1,885,000	198	2,257,000

LICENSING OF PROJECTS

Mr. THOMAS. Referring to licensing on page 59, you want to go from 97 to 115 employees. These are small projects, are they not?

Mr. SWIDLER. The unlicensed project activity——

Mr. THOMAS. You got into some big ones here. These are non-Federal. You run into some sizable operations here.

Mr. SWIDLER. These are large operations. These constitute a backlog in dollars of $3 billion of construction, although I must say some overlap.

Mr. THOMAS. We will put pages 60 and 61 in the record.

(The pages follow:)

A. Licensing: Summary of workload and positions required

	On hand 1st of year	Received or initiated	Total workload	Number completed	On hand end of year	Positions required
1963 actual:						
1. Permits and license applications	160	167	327	108	219	86
2. Unlicensed project investigations		1	1		1	2
3. Declarations of intention	2	1	3	1	2	
4. Water resources appraisals		5	5		5	
5. Recapture provisions						
Total	162	174	336	109	227	88
1964 estimate:						
1. Permits and license applications	219	168	387	146	241	76
2. Unlicensed project investigations	1	22	23	10	13	5
3. Declarations of intention	2	1	3	2	1	
4. Water resources appraisals	5	10	15	5	10	15
5. Recapture provisions						1
Total	227	201	428	163	265	97
1965 estimate:						
1. Permits and license applications	241	170	411	151	260	81
2. Unlicensed project investigations	13	15	28	10	18	5
3. Declarations of intention	1	2	3	2	1	
4. Water resources appraisals	10	10	20	10	10	24
5. Recapture provisions						5
Total	265	197	462	173	289	115

We are requesting an increase of 18 positions in 1965 to perform our licensing function for hydroelectric projects. The costs of this work, including the cost of the staff of 115 people, is reimbursable as provided in part I of the Federal Power Act to the Government by the licensees except for public bodies which are specifically exempt by the terms of the act.

1. Processing permit and license applications

During the past 17 years, the operating capacity under license has more than quadrupled from about 4 million to 17,900,000 kilowatts in 280 projects. The ultimate capacity under license has increased almost five times from about 5,500,000 to more than 26,900,000 kilowatts. At present, 29 projects totaling 6 million kilowatts of hydroelectric capacity are under construction. These projects represent a construction program of $1.5 billion.

At the start of 1965, we expect that approximately 241 applications for permits and licenses will be pending. Three of these will be for preliminary permits, 100 for major licenses, 21 for minor licenses, 82 for amendments, and 35 for surrender or transfer.

The Commission attempts to process all license applications as promptly as possible. Formal hearings are held only when required in the public interest or to provide a record to resolve a dispute that cannot be otherwise resolved. Two hearings involving licenses for new capacity were held in 1963 involving the proposed Don Pedro project on the Tuolumne River in California, having an installed capacity of 130,000 kilowatts, and the proposed Little White Salmon project in the State of Washington, having an installed capacity of 30,600 kilowatts. Hearings are planned to start in 1964 on five applications (Belden, Calaveras County Water District, Tuolumne County Water District No. 2, Hawks Nest project, and Richvale Irrigation District). Final Commission action on these cases and other cases to follow will be expedited by the programs and manpower we are requesting.

Mr. THOMAS. You say there are many existing hydroelectric projects that are still operating without an FPC license as required by section 23(b) of the Federal Power Act. These are small ones. How old are they?

Mr. SWIDLER. They are of various ages and sizes.

Mr. THOMAS. These were in operation before the Federal Power Act was passed. When was it passed?

Mr. SWIDLER. The Power Act was first passed in 1920. This is part I of the present act.

Mr. THOMAS. Some were in operation before it was passed.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. Are you not chasing rabbits?

Mr. SWIDLER. No, sir.

Mr. THOMAS. Are there any bears in the crowd?

Mr. SWIDLER. Let me try to explain the problem. There were about 550 existing projects we thought came under our jurisdiction. In the first place, we do not think it is up to us to appraise——

Mr. THOMAS. How many of the 550 have not been licensed? How many are you gunning for here?

Mr. SWIDLER. About half of those are in the process of being licensed. They have either come in and applied for licenses or they have indicated they intend to. The remainder we are gradually working out of our system. The question is whether the laws enacted by Congress are going to be observed. We do not think it is up to us to pick and choose and say, you can be exempt from the requirements Congress imposed, and somebody else is subject to them.

Mr. THOMAS. The only concrete information is this. You say (reading):

On May 4, 1962, the Commission sent letters enclosing its opinion No. 357 to 193 owners or operators of approximately 500 unlicensed hydroelectric projects

asking them whether they proposed to file applications for licenses. The Commission has received responses from all but one of these owners.

As of October 1, 1963, 77 owners have stated their intention to file applications for license for approximately 284 developments having a total installed capacity of about 1,800,000 kilowatts.

Does that mean 77 out of 193?

Mr. SWIDLER. Yes, sir; but it means 284 projects out of 550.

Mr. THOMAS. Having a total installed capacity of about 1,800,000 kilowatts. Is that big, small, meduim, or what?

Mr. SWIDLER. This includes some at 30,000 or 40,000 horsepower and others are quite small.

Mr. THOMAS. Some were in existence long before your act went into effect?

Mr. SWIDLER. Yes, sir; and have been reconstructed since.

Mr. JONAS. You cannot touch them.

Mr. SWIDLER. If they have been reconstructed.

Mr. THOMAS. They are trying to.

Mr. JONAS. The act excludes them. Section 23(b) excludes those in operation prior to 1920, does it not?

Mr. SWIDLER. If they have a valid permit and if it is the same project. Some of these projects have been completely reconstructed. For example, some permits may have been for a project involving no hydropower at all.

Mr. JONAS. It says except in accordance with the terms of a permit or with valid existing rights-of-way granted prior to June 10, 1920.

Mr. SWIDLER. Exactly.

Mr. JONAS. That does not say a Federal permit.

Mr. SWIDLER. In the number that we have given you we have excluded the cases that do not require licenses. When any of these people to whom we write point to the existence of a valid permit, that concludes it as far as we are concerned.

Mr. THOMAS. How many people do you have working on it?

Mr. SWIDLER. Let me say first of all this licensing activity is reimbursable. It will not cost the Federal Government a dollar net. We will get out of it the orderly development of our river systems, which was the purpose of the Federal Power Act.

Mr. THOMAS. These little fellows pay their own costs. This is about the only one where it is self-supporting. How many people do you have engaged in it?

Mr. SWIDLER. We are asking for a total for all non-Federal hydroelectric projects of 198 positions.

Mr. THOMAS. I am talking about going out and getting these fellows to come up and——

Mr. SWIDLER. Five new positions.

Mr. THOMAS. That does not cover it. That is investigation. How many do you have doing the licensing work? How many do you have doing the accounting work?

Mr. SWIDLER. They are covered by a share of the other work.

(The following was subsequently supplied for the record:)

There is a total of 115 positions in the licensing work, of which 5 are allocated to unlicensed projects investigations. In addition, 36 positions are allocated to licensed project accounting, 28 positions to supervision of licensed operations, and 19 positions to headwater benefits determinations, or a total of 198 positions for the non-Federal hydroelectric projects activity.

Mr. THOMAS. What is a horseback opinion? You have 12 or 15 people doing this work, you are bound to have.

Mr. SWIDLER. That may be a good horseback figure, sir. I think it is worth every bit of the cost.

UTILIZATION OF RIVERS

Let me tell you some of the values of licensing old projects. I am sure I would not be much interested in it except as doing a routine job if I did not think it had importance. But it does have importance. A project, even though a small project, may be the key to the effective use of a stream. Some of these streams are coastal rivers that affect the whole question of reviving the fishing industry on the eastern coast. They may have a very important effect on pollution. They may have a very important effect on ———

Mr. THOMAS. How is that going to affect the fishing industry, whether he has a license or does not have a license to produce power?

Mr. SWIDLER. Our license is not like a driver's license. Our license is a comprehensive document which integrates these projects into the pattern for development of our river systems and which provides that they will develop the recreation potential, that they will fit themselves into the naviagation and flood control schemes, that they will cooperate in pollution activities.

Mr. THOMAS. I have just one question. How did this industry get along for the last 25 years without all this regulation?

Mr. SWIDLER. I think we all know that there are serious——

Mr. THOMAS. Did anybody go broke or die from lack of regulation?

Mr. SWIDLER. We know a lot of our streams have been spoiled, that there are serious problems of pollution, and that it is one of the great congressional objectives now to do something to encourage the cleaning up of our rivers.

Mr. JONAS. Do you have responsibility on the question of pollution?

Mr. THOMAS. He said he had an overall jurisdiction, even fishing, a comprehensive plan.

Mr. SWIDLER. Yes, sir; we try to fit these projects into the best overall development of these river systems. All licenses are referred to the Department of Health, Education, and Welfare for their recommendations as well as to the Department of the Interior, so that we coordinate the recreational aspects, pollution aspects, the fish aspects, the navigation and flood control aspects.

Mr. THOMAS. Is there any wonder some of these people do not want to submit to the jurisdiction of the Federal Power Commission? They want to disturb their fishing, they want to disturb everything they have been doing for 40 years. Here comes Mr. Swidler with his overall plan.

Mr. BOLAND. We suffer in New England because of a lack of a comprehensive study on our rivers. The powerplants were developed by private companies and were developed piecemeal, not putting to full utilization the best overall use of the river itself. There is no question about it in our area. I think this is an important program, except it started too late. You cannot touch some of these, as Mr. Jonas points out. These were in being long before the Power Act of 1920,

with the result that you cannot touch them unless they are reconstructed.

Mr. JONAS. Will the gentleman yield?

Mr. BOLAND. Yes.

RECAPTURE PROVISIONS OF THE FEDERAL POWER ACT

Mr. JONAS. This one section of the act gives the Government the power to take it over.

Mr. THOMAS. At the expiration of the license.

Mr. BOLAND. I am kind of in favor of that. You should see some of the development of our river basins.

Mr. THOMAS. I have not seen any of them in a long time. There use to be hundreds of little ones.

Mr. ROSS. Look at Androscoggin River, the Penobscot, St. Croix, for instance. These are all a disgrace.

Mr. THOMAS. One time I was there I saw some little plants, a shoe factory, a paper factory, a plant every 5 or 6 miles. That water was not wasted. Everybody used it.

Mr. BOLAND. It is the worst possible utilization of the river. There is nobody to blame because that is a very old section of the country. This is the way the area was developed. Unfortunately, we at the time did not have a Federal Power Commission in operation. This is a good program.

Mr. THOMAS. These licenses are for 50 years?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. At the end of 50 years the Government has the right to take them over?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. By paying just compensation?

Mr. SWIDLER. Yes, sir.

Mr. JONAS. You do not have to do that.

Mr. THOMAS. What do they pay?

Mr. JONAS. What the Commission says is fair.

Mr. SWIDLER. The amount they pay is original cost adjusted for excess profits.

Mr. THOMAS. Can they not go to court and get just compensation?

Mr. SWIDLER. No, sir; they cannot because they have accepted the license provisions.

Mr. THOMAS. The Government has the right under section 15 of the Federal Power Act to relicense the project. You do not want to go into the electric power business as a matter of practical everyday common horsesense. You will relicense them if they want to and, of course, they will want to. You will relicense projects. You say that under section 14 you have the right to take over, maintain, and operate the projects upon payment to the existing owner. Of what?

Mr. O'CONNOR. The net investment plus severance damage.

Mr. JONAS. As determined by the Federal Power Commission—period.

Mr. SWIDLER. Less excess profits.

Mr. THOMAS. Net investment is arrived at how—including depreciation for the last 50 years?

Mr. SWIDLER. Less depreciation.

Mr. THOMAS. Plus new capital investment. That is the reason you want to audit the books, because you are figuring on taking them over and you do not want them to change too much.

Mr. ROSS. Also the municipal organizations have a preference upon the expiration of the license, too.

Mr. JONAS. It also specifically excludes consideration of goodwill, going value, or prospective profits.

Mr. THOMAS. How many of those licenses have expired? We looked at it close 2 or 3 years. None had expired. You were not figuring on taking them over. Did any expire this year?

Mr. SWIDLER. No, sir. I have here a table showing expiration dates.

Mr. THOMAS. When is the first one?

Mr. SWIDLER. 1968. We feel it is our responsibility to see that the problem of license expiration does not stand in the way of the overall progress of the electric industry in the United States so that when these licenses do expire, that there will be some orderly procedure either for recapturing them or relicensing them.

Mr. THOMAS. We will put pages 68 and 69 in the record, dealing with recapture provisions of the Federal Power Act.

(The pages follow:)

RECAPTURE PROVISIONS OF FEDERAL POWER ACT

Licenses for projects of substantial size will expire beginning with 1968, and license expirations of major size projects will begin in 1970. Many other licenses will expire within the decade to follow. As they expire, the Government has the right under section 15 of the Federal Power Act to relicense the project or under section 14 to take over, maintain and operate the projects upon payment to the existing owner. While the Federal Power Act gives the United States the right to recapture licensed projects, it does not establish the procedures by which the Congress or the Commission is to determine whether the United States should exercise its recapture rights. The Commission, on November 6, 1963, proposed to establish certain procedures to aid Congress in determination of the recapture of major hydroelectric power projects upon expiration of FPC licenses, and to permit relicensing where recapture was not in order. The Commission proposed procedures to (1) provide Congress with information in time for it to exercise its discretion to recapture projects at the expiration of licenses, (2) provide licensees and others with notice and opportunity for timely filing applications for relicensing, (3) expedite the processing of applications for projects which Congress does not elect to recapture, and (4) provide for the transferring to the United States of possession and title to project properties and the fixing of compensation to the licensees of projects which Congress elects to recapture.

Licenses for 2 projects with total installed capacity of 82,000 kilowatts will expire in 1968 and licenses for 25 projects with total installed capacity totaling 429,520 kilowatts will expire in 1970. The Commission plans to evaluate the use of water resources by each of these licensed projects well before the expiration of its license terms in order to recommend to Congress whether in its judgment the projects should be recaptured by the United States. The appraisal studies previously mentioned of the streams on which these projects are located must therefore be initiated as soon as possible. Evaluation studies will commence in 1964 of 10 streams with projects on which licenses will expire between 1968 and 1970.

Mr. SWIDLER. The decision on whether to recapture is fundamentally a congressional decision. If Congress decides to recapture, either directly or by delegating that right to some executive agency, if it wishes to do so, then we ought to be in a position, as the act requires us to be, to determine what the price is.

Mr. THOMAS. How are you going to determine what to pay for it? You say in the last 40 years he did not pay anything for this, he paid

this, you have had inflation, he has been paying taxes. I have a feeling that the Court is going to say that you just cannot take property in this country without due and just compensation regardless of what your statute says. This fellows says I have a market value in this plant of a million dollars, and after you depreciate it, it is $50,000. The court will say "You pay that million dollars or not take it from him."

Mr. SWIDLER. That may be so, but from the time aspect we are almost against the gun when Congress is going to say, what are the circumstances with respect to this project? What function does it serve? How can it be integrated into the power network? What is the recapture price? If we do not put a little thinking and manpower into it, we will not have the answers.

Mr. THOMAS. You have been doing a little auditing for several years.

Mr. SWIDLER. We have no staff for this activity.

Mr. JONAS. Will the chairman yield?

Mr. THOMAS. Mr. Jonas.

Mr. JONAS. I am glad to hear Chairman Swidler say that because, as I read the section, I do not find where it says who will take this over or who will make the decision. It does not say the Federal Power Commission shall have the authority to make this decision. I take it from what you said that the thinking of the Commission is that that should be an act of Congress.

Mr. SWIDLER. We do not claim that authority, sir.

Mr. JONAS. It should be a congressional decision. I do not think such power should be vested in any commission.

Mr. SWIDLER. We are now initiating a rulemaking proceeding, and our intention is to put ourselves in position to make recommendations to Congress which will be informed and factual and not leave ourselves in position where this or some other committee of Congress would come to us and say, what have you done to carry out your responsibilities, and we would have to say, nothing.

Mr. THOMAS. You have been working on this same thing for 20 years. Your justifications look as though they have been copied from one year to the other.

COLLECTIONS FROM LICENSES

We have looked at license fees. We will put page 71 in the record. (The page follows:)

ANNUAL CHARGES COLLECTED FROM LICENSEES

Section 10(e) of the Federal Power Act provides for the collection of annual charges for various purposes from non-Federal hydroelectric projects in operation. Total collections from licensed projects, and the amounts collected to cover the cost of administering part I of the act are as follows:

	Total	Administration of pt. I
1963 actual	$2,287,129	$1,474,566
1964 estimate	2,553,000	1,765,000
1965 estimate	2,837,000	2,049,000

The Commission has acted to increase the assessment of annual charges under licenses (other than State and municipal) for projects of more than 2,000 horsepower installed capacity to make sure that they cover the actual costs of administering part I of the act, including the costs of the water resources appraisals for hydroelectric licensing program. In recent years, charges for this purpose have not been sufficient to recover the full cost of administering the licensing function. The action now being taken will assure that annual charges hereafter fully cover the appropriate administrative costs as intended by the Congress.

Federal River Development Projects

Mr. Thomas. Turn to "Federal river development projects" and insert pages 76 and 77 in the record.

(The pages follows:)

Federal river development projects—comparative summary of activity

	1963 actual		1964 estimate		1965 estimate	
	Positions	Funds	Positions	Funds	Positions	Funds
A. Cooperative investigations and related activities	42	$425,168	38	$388,500	38	$408,000
B. Survey coordinating committees	8	80,826	7	73,500	19	209,000
Total activity	50	505,994	45	462,000	57	617,000

The Commission has a vital role to play in connection with the power aspects of river development projects and programs proposed by the Corps of Engineers and the Bureau of Reclamation.

Under the requirements of the flood control and river and harbor acts, the Commission cooperates with the Corps of Engineers in studies of proposed projects and makes recommendations to the Secretary of the Army for safeguarding the hydroelectric power potential of such projects. Members of the staff participate as representatives on the basin survey coordinating committees established by the Corps of Engineers to conduct comprehensive river basin surveys. The Commission cooperates with the Bureau of Reclamation and makes recommendations, under the provisions of section 4 of the Federal Power Act, with respect to reclamation projects.

The Commission reviews proposals by the Department of the Interior for the sale of hydroelectric power for projects constructed by the Corps of Engineers. This review provides the basis for Commission approval of rates for the sale of this power as required by the Flood Control Act of 1944 and other acts.

Work under the activity also includes cost allocations, interagency committee participation, and action on requests for information and technical assistance from Congress and interested organizations. The cost allocation work provides a basis for the approval of Federal project power rates as well as headwater benefits determinations.

Mr. Thomas. Cooperative studies with the Interior Department and the Corps of Engineers. Who has the final say on the rates for power?

Mr. Swidler. As you know, the Department of the Interior is the marketing agent for the projects built by the Corps of Engineers under the Flood Control Act of 1944. Under that act, the approval of the Federal Power Commission is required for their rate structure. They submit their rates to us for approval.

We do not have the same compliance jurisdiction over the Secretary of the Interior that we do over the Alabama Power Co. or over the Duke Power Co. I think it remains to be determined just who does have the last word because obviously the Secretary is the fellow who sends out the bills.

Mr. THOMAS. I remember quite well—I think I do—when this act was passed. We had quite a heated argument between Secretary Ickes and the Secretary of the Army, Secretary Patterson. Was it not the intention at that time that Ickes would set the power rate? That is my recollection.

Mr. SWIDLER. Subject to approval of the Federal Power Commission.

Mr. THOMAS. He let everybody come in and have a joint say, but the old gent said, I am going to set it. I will let you all have a piece of the pie, but the final word will come from the Secretary of the Interior. Is that not the way it operates today?

Mr. ROSS. Nobody knows.

Mr. SWIDLER. I think you are being realistic in this sense. We do not have any way to police our jurisdiction over the Interior Department. If he does not comply with our requirements, all we can do is report it to the Congress.

Mr. THOMAS. I think he purposely let everybody have a little peace and harmony and come to the party, but when the party was over, he was going to call the shots, and he publicly stated it. I think I remember it quite well. That is the way it is working out.

COOPERATIVE INVESTIGATIONS AND RELATED ACTIVITIES

We will go to "Cooperative investigations and related activities," and put pages 78 and 79 in the record.

(The pages follow:)

Cooperative investigations and related activities—Summary of workload and positions required

	On hand 1st of year	Number received	Total workload	Number completed	On hand end of year	Positions required
1963 actual	58	66	124	31	93	42
1964 estimate	93	36	129	34	95	38
1965 estimate	95	40	135	36	99	38

The Commission's estimated workload on Federal project investigations is based primarily on the activities of the Corps of Engineers and the Bureau of Reclamation. The work includes investigations and studies, undertaken by the Department of the Army or the Interior or by other Federal planning agencies, in which the Commission cooperates either informally or through established Survey Coordinating Committees or comparable organizational arrangements and on which the Commission submits formal comments and recommendations to the reporting departments.

The Commission participates in the formulation of Federal reservoir projects by serving, with respect to the power features, as power consultant and adviser to the construction agencies which have the primary responsibility for the detailed investigations and construction of such projects. Based on these cooperative studies, the Commission formulates its recommendations concerning power facilities to be provided in Federal plans for river basin development.

The cooperative studies include consultations with the Federal construction agencies on the amount of power that could be produced at proposed projects and the economic feasibility. In response to these agency requests, the Commission furnishes advice on the value of and market for power from hydroelectric projects, including estimates as to the time of demand and utilization.

In view of the Commission's special background in the electric power field, the information and data it processes on the industry, and its experience with river basin studies and the licensing of non-Federal projects, there is and will continue to be increasing requests for assistance by other Federal agencies and by

the Bureau of the Budget in planning the power features of proposed projects in the interests of sound and orderly development of the Nation's water and land resources. Such consulting service is not a duplication of work since it does not include the detailed surveys and investigations, the damsite explorations, and the project designs which are all performed by the constructing agencies.

Work of similar character is necessary and is performed at the postconstruction or operating stages in connection with cost allocations, determinations of headwater benefits, approval of rates, and the determination of the need and the economics of adding new units at constructed projects. The Commission's work relating to such Federal hydroelectric projects is of a continuing nature, extending from the early survey stages into the operating phases. Information obtained in the cooperative studies with the other Federal agencies is needed in the Commission's licensing of non-Federal projects.

Mr. THOMAS. In the beginning of 1963 you had on hand 58, number received 66, total workload 124, completed 31, carried over 93.

In 1965 you carry over 99, complete 36. The workload has gone up a little, 135, received 40 new ones. Is there any rush on these projects?

Mr. SWIDLER. They determine the pace of the public works program so far as river basin projects are concerned.

Mr. THOMAS. You say [reading]:

In response to these agency requests, the Commission furnishes advice on the value of and market for power from hydroelectric projects, including estimates as to the time of demand and utilization.

The Corps of Engineers have an army of engineers. If there ever was a duplication, here it is. You come to the party that Mr. Ickes intended. After all, this work is done either by the Corps of Engineers or Interior. You are just present at the party. From a constructive point of view, I am talking about.

Mr. SWIDLER. So far as rates are concerned——

Mr. THOMAS. You could do away with your people here and it would not amount to a hill of beans.

Mr. O'CONNOR. We serve as more or less an auditing function of the Congress in this case because both the Corps of Engineers and Interior are involved in construction. It is my understanding that as to the power values we furnish, we are the one independent auditing agency. We check on power values.

Mr. SWIDLER. The fact of the matter is that Interior must come to us with these rates, and we have to have a staff to analyze them. If Congress thinks this is not worth doing——

Mr. THOMAS. They have a staff twice as big as yours. They claim they are the finest experts in the world on power.

Mr. SWIDLER. They are a program agency and Congress apparently felt someone that did not have a program interest ought to take an objective look.

Mr. THOMAS. You had a three-way fight, and this is a compromise.

REIMBURSEMENT FROM CORPS OF ENGINEERS

I alluded this morning to that last paragraph. It is on page 82 where the Corps of Engineers picked up the bill for six of your employees and you are taking them back. You want 12 for the job. We will insert the last paragraph on page 82.

(The material referred to follows:)

Although the Commission did not request additional funds for this work during 1964, it is essential that funds be included for 12 additional positions to enable the Commission to carry its share of the work of the survey coordinating committees. This includes six positions being financed by reimbursement from the Corps of Engineers in 1964.

REGIONAL OFFICES AND EMPLOYMENT

Mr. THOMAS. Where are your regional offices located?

Mr. SWIDLER. One is in New York, one in Atlanta, one in San Francisco, one in Chicago, and one at Fort Worth.

Mr. THOMAS. Where is that list of regional offices and their employment? You usually set it out, but I do not find it. Is it in these exhibits?

Mr. SWIDLER. Page 10.

Mr. THOMAS. Is that the only place you have it? Atlanta, Chicago, Fort Worth, New York. I wanted the employment by grades. How many people are in your regional offices?

Mr. SWIDLER. I have that right here, sir. Let me give you these sheets.

Mr. THOMAS. How many people do you have in Atlanta? We have been to your Atlanta office.

Mr. SWIDLER. We have now 21 people.

Mr. THOMAS. That is a good one. How many in Chicago?

Mr. SWIDLER. In Chicago we have also 21.

Mr. THOMAS. How many in Fort Worth?

Mr. SWIDLER. Twenty-one.

Mr. THOMAS. New York?

Mr. SWIDLER. Nineteen.

Mr. THOMAS. San Francisco?

Mr. SWIDLER. Thirty-three in the Bureau of Power and 22 in our accounting work.

Mr. THOMAS. I thought you had nine offices and about 80 percent of them were for power and maybe two or three for—do you not have a compiled chart of regional offices?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. Where is it?

Mr. SWIDLER. It is shown on page 10, showing five regional offices of the Bureau of Power. Then we have a Houston field office for the Bureau of Natural Gas.

Mr. THOMAS. Where are the green sheets on these regional offices? How many people do you have in your regional offices, all together, about 200 or 175?

Mr. SWIDLER. These sheets give that information broken down by grade, down to the lowest grade.

Mr. BOLAND. This is just the Bureau of Power.

Mr. SWIDLER. Here is the Houston office.

Mr. THOMAS. What is each office headed by?

Mr. SWIDLER. By a grade 15, sir, in each case.

Mr. THOMAS. Insert these green sheets in the record.

(The pages follow:)

BUREAU OF POWER

The regional offices, within their geographic areas, perform work of the Bureau of Power which can be done most effectively and efficiently in the field, including study of river basins, participation with other agencies in the planning of proposed Federal projects, field supervision of permits and licenses for non-Federal hydroelectric projects, special studies and investigations in connection with the processing of applications, survey of power markets, interconnection and coordination studies of power systems, review of power system statements submitted by the electric power industry, and representation of the Commission on field committees.

ATLANTA REGIONAL OFFICE

Grade	Title	1963		1964		1965	
		Number	Cost	Number	Cost	Number	Cost
GS-15	Regional engineer	1	$16,973	1	$18,242	1	$18,762
GS-14	Deputy regional engineer	1	15,413	1	16,328	1	16,328
GS-14	Engineer	2	28,246	2	29,952	2	30,868
GS-13	do	3	36,025	3	38,293	3	39,436
GS-14	Economist			1	13,666	1	13,666
GS-12	Engineer	4	41,393	4	44,262	4	44,927
GS-11	do	1	9,110	1	9,818	3	27,206
GS-9	do	1	8,486	1	8,882	2	16,162
GS-7	do					1	6,781
GS-7	Engineer draftsman	1	6,843	1	7,176	1	7,176
GS-6	Secretary	1	6,074	1	6,469	1	6,469
GS-6	Clerk	1	6,074	1	6,302	1	6,302
GS-5	do	2	10,275	2	10,671	2	10,837
GS-5	Engineer	1	5,699				
GS-4	Clerk	3	14,580	2	10,400	2	10,400
	Total	22	205,191	21	220,461	25	255,320

CHICAGO REGIONAL OFFICE

GS-15	Regional engineer	1	$16,973	1	$18,242	1	$18,762
GS-14	Deputy regional engineer	1	15,413	1	16,328	1	16,328
GS-14	Engineer	2	27,393	2	29,494	2	30,410
GS-13	do	2	22,693	2	24,627	3	37,128
GS-12	do	3	32,553	3	34,570	3	34,902
GS-11	do	1	9,110			2	17,388
GS-9	do	1	7,363	2	15,476	3	23,212
GS-7	do	1	6,656	4	27,498	4	28,288
GS-6	Secretary	1	6,240	1	6,469	1	6,469
GS-6	Clerk	1	6,240	1	6,469	1	6,469
GS-5	Engineer	2	11,232				
GS-5	Clerk	3	16,120	3	16,662	3	16,807
GS-4	do	1	5,096	1	5,200	1	5,200
	Total	20	183,082	21	201,035	25	241,363

FORT WORTH REGIONAL OFFICE

GS-15	Regional engineer	1	$15,059	1	$16,702	1	$17,222
GS-14	Deputy regional engineer					1	13,624
GS-14	Engineer	1	14,123	2	28,600	2	29,058
GS-13	do	1	11,170				
GS-12	do	4	41,414	4	43,929	4	45,261
GS-11	do	2	17,950	4	38,439	4	39,001
GS-9	do	1	8,258			1	7,280
GS-7	do	1	6,469	4	27,311	4	28,080
GS-6	Secretary	1	6,074	1	6,302	1	6,302
GS-6	Clerk	1	6,074	1	6,302	1	6,302
GS-5	do	3	15,475	2	10,192	2	10,525
GS-5	Engineer	1	5,533				
GS-4	Clerk	2	9,214	2	9,568	2	9,714
	Total	19	156,813	21	187,345	23	212,369

NEW YORK REGIONAL OFFICE

GS-15	Regional engineer	1	$16,973	1	$18,242	1	$18,762
GS-14	Deputy regional engineer	1	15,413	1	16,328	1	16,328
GS-14	Engineer	2	28,246	2	30,868	2	30,868
GS-13	do	3	37,856	2	27,311	3	39,437
GS-12	do	3	33,510	5	56,534	5	57,200
GS-11	do	3	27,871	2	18,242	3	27,206
GS-9	do	1	6,906	1	7,280	1	7,509
GS-7	do					2	13,562
GS-6	Secretary	1	6,074	1	6,469	1	6,469
GS-6	Clerk	1	6,074	1	6,302	1	6,302
GS-5	do	1	5,221	1	5,491	1	5,491
GS-4	do	2	10,483	2	10,691	2	10,691
	Total	19	194,627	19	203,758	23	239,825

SAN FRANCISCO REGIONAL OFFICE

Grade	Title	1963		1964		1965	
		Number	Cost	Number	Cost	Number	Cost
GS-15	Regional engineer			1	$15,683	1	$16,182
GS-14	Deputy engineer	1	$15,413	1	16,328	1	16,328
GS-14	Engineer	3	41,516	3	44,470	3	45,844
GS-13	do	6	68,807	7	87,547	7	89,482
GS-12	do			1	9,984	3	30,285
GS-11	do	9	86,028	7	70,742	7	72,113
GS-9	do	3	22,755	3	23,900	5	38,917
GS-7	do	1	6,115	1	6,594	3	20,156
GS-7	Administrative clerk	1	6,469	1	6,781	1	6,968
GS-6	Secretary	1	6,240	1	6,469	1	6,469
GS-5	do	1	5,054	1	5,658	1	5,658
GS-5	Clerk	4	21,175	3	16,495	3	16,994
GS-4	do	2	9,068	1	5,200	1	5,200
GS-3	do	1	4,035	2	8,508	2	8,508
	Total	33	292,675	33	324,359	39	379,104

Bureau of Natural Gas

FUNCTION

This office performs field audits, engineering, geological, and accounting investigations pertaining to the aspects of rate and certificate filings made pursuant to the Natural Gas Act which involve matters of rate base, cost-of-service determinations, cost classification and allocation, rate design, gas supply, reserves, deliverability, and rate structure; verifies statements made in such filings, participates with the headquarter's office in formal hearings in location where hearings are scheduled, and participates with headquarter's office in programing work.

Houston office

Grade	Title	1963		1964		1965	
		Number	Cost	Number	Cost	Number	Cost
GS-15	Head of office	1	$14,581	1	$16,702	1	$17,222
GS-14	Engineer	1	13,270	1	14,976	1	14,976
GS-14	Power utilities auditor	1	13,270	1	14,518	1	14,976
GS-13	Engineer	1	13,354	1	12,126	1	12,501
GS-13	Power utilities auditor			2	23,857	2	24,627
GS-12	do	4	41,102	4	41,600	4	42,599
GS-12	Engineer	4	38,876	5	53,561	5	54,560
GS-11	do	4	35,900	3	28,351	3	28,892
GS-11	Power utilities auditor	5	42,640	5	44,345	5	45,199
GS-9	do	5	37,918				
GS-9	Engineer	3	23,878	2	17,534	2	17,534
GS-7	do	1	6,656				
GS-7	Accountant	2	11,080				
GS-7	Administrative clerk	1	6,469	1	6,968	1	6,968
GS-5	Clerk-stenographer			1	4,701	1	4,867
GS-4	do	1	4,118	1	5,200	1	5,200
GS-3	Clerk-typist	1	3,931				
	Total	35	307,043	28	284,439	28	290,121

Office of Accounting and Finance

FUNCTION

This Office performs fieldwork on original cost examinations of plant accounts and on accounting compliance audits of natural gas companies having offices in Houston or other cities in the southwestern part of the United States.

Houston office

Grade	Title	1963		1964		1965	
		Number	Cost	Number	Cost	Number	Cost
GS-9	Power utilities auditor	5	$39,251	3	$24,357	3	$24,803

OFFICE OF ACCOUNTING AND FINANCE

FUNCTION

This Office performs the accounting work with respect to all major licensed hydroelectric projects located west of the western boundaries of the States of Minnesota, Iowa, Missouri, Arkansas, and Louisiana. Performs field audits of the books of licensee companies as the basis for Commission determination of the plant cost, depreciation reserves, and amortization reserves of excess earnings for the projects in this area.

San Francisco office

Grade	Title	1963		1964		1965	
		Number	Cost	Number	Cost	Number	Cost
GS-15	Supervisory auditor	1	$15,538	1	$17,222	1	$17,222
GS-14	Power utilities auditor					1	13,624
GS-13	do	2	22,340	2	24,252	2	25,002
GS-12	do	1	9,797	2	20,634	2	20,966
GS-11	do	2	16,370	2	17,680	3	26,666
GS-9	do	8	59,075	7	56,679	7	56,908
GS-7	Accountant	3	16,662	4	26,542	3	20,343
GS-5	do	1	4,576	2	11,316	2	11,648
GS-4	Clerk-stenographer	2	8,236	1	4,368	1	4,514
GS-3	do			1	3,890	1	3,994
	Total	20	152,594	22	182,583	23	200,887

FIELD OFFICE FUNCTIONS

Mr. THOMAS. What do they do in these regional offices? Are they engaged in river basin survey work? That is 95 percent of their activity. They have been surveying that territory ever since the Power Act was passed some 40 years ago. When are you going to get through surveying?

Mr. SWIDLER. Let me read you the things that they do: They do the work which can be best done in the field, including study of river basins, participation with other——

Mr. THOMAS. That is 95 percent of their work. I have been in the office a good many times.

Mr. SWIDLER (continuing). Participation with other agencies in the planning of proposed Federal projects, field supervision of permits and licenses for non-Federal hydro projects, special studies, and investigations in connection with the processing of applications, surveys of power markets, interconnection and coordination studies of power systems, review of power system statements submitted by the electric power industry, and representation of the Commission on field committees.

Mr. BOLAND. What is the answer to the chairman's assertion that "as long as I have been sitting here we have been studying river basins; the same river basins every year. The river basins don't change." What is the answer to the chairman that we have been doing this over the years? Why do we have to continue to do it? That is a good question, I think.

Mr. SWIDLER. It is a good question. I would like to have Mr. Brown supplement my answer, but let me say in the first place river basins do change; that whenever, for example, a community in a river basin grows, you completely change the economics of navigation projects, of power projects, of everything else that affects the development of that basin. The project which might be feasible if you did not have to flood out a town becomes infeasible when that town grows; a navigation improvement which would not be worthwhile if you had no industrial development along the river becomes very important when industry grows, as the chairman should know from his experience with the Houston Ship Channel. Our Nation is a rapidly growing nation, a rapidly changing nation, and the river basins are the country itself. They reflect the changes that take place in the economy of the country. The hydrology may remain the same but the economy changes.

Mr. THOMAS. You are talking power purposes. You are primarily concerned with rainfall and for your purposes it does not make much difference whether it floods 10 or 15 feet. You have your gates and your sluiceways. You are not going to flood so many highways here. You are not concerned with that. You are not concerned with how many basins you are going to get wet because water cannot go off. Every time you build a house you usually have 50 by 50, it is 1,500 feet of roof space that intensifies your runoff. You have those problems. You are not particularly concerned with that. Not once in a blue moon is a stream going to change its course as did the Rio Grande River, when we gave Mexico 15 or 20 acres. That is not one of your basic problems.

Mr. SWIDLER. The hydrologic problem is only a part of the overall problem to river development and, even as to that, despite all these years our information is by no means complete or accurate. I would like to have Mr. Brown say an additional word on this.

Mr. THOMAS. You say you are concerned in these studies about your power market. As your river basin grows in population you want to know how much power will be consumed within what distance of your source of production. Isn't that some of your problem? That is constantly changing, of course.

Mr. SWIDLER. The alternative cost of power supply changes all the time, with changes in the economics and the technology of the industry and changes in freight rates.

Mr. ROSS. Section 10(a) is the magna carta of the Power Act. It makes us insure that the power development fits into the development of the river basin.

We have to measure each and every licensed river basin to see whether it does fit into the best comprehensive development of the basin.

Mr. THOMAS. You are saying that the study you made last year is going to be different from the one made this year, provided there is some growth in the basin?

Mr. ROSS. Many projects that are coming before us for license today are on small rivers, for example, in New England. There has never been a basin study of the smaller streams in New England—the Kennebec, Penobscot, St. Croix, et cetera. On the Connecticut River there was a joint State group that made a study in the early fifties. It was not a complete basin study. The Engineers are now in the process of making the first thorough study of the Connecticut River Basin which is a multistate study. We are cooperating with them. When we relicense these projects or license existing projects, this would give us the first chance to analyze how to fit those projects into this comprehensive plan that the Corps of Engineers is drawing up.

Mr. SWIDLER. If the committee does not mind, Mr. Brown, I think, could add something here.

Mr. BROWN. I think these statements by Mr. Swidler and Mr. Ross have covered the question fairly well but let me say this: This program is designed to avoid overlapping and duplicating the studies of the Corps of Engineers. We are closely tied in with them on the larger river basin studies.

What we have in mind, as Commissioner Ross stated——

Mr. THOMAS. What we are concerned with and what we are not completely concerned with, is what did you learn in 1963 that you did not learn in 1958 about *x* river.

Mr. BROWN. Many of these river basins have not been studied in years. It isn't a matter of going back to 1958. It is going back further than that. One of our early approaches is to make a quick survey of the reports and available information that can be compiled.

Mr. THOMAS. It looks like a better answer would be when you have a project coming up you just go to study it at that particular time and forget until you have a bird in the hand, because you are going through a lot of lost motion. Studies you made in 1958 are no good to you in 1959. If you do not have a project coming up until 1961 why don't you wait until 1961 and study it then.

Mr. BROWN. The ones we will study I am sure will be well documented for the use of the Commission.

Mr. THOMAS. We hope you are right. We will take your word for it for the time being. Both fingers are crossed.

OTHER OBJECTS OF EXPENSE

Put page 84 in the record. You have personnel compensation, personnel benefits, transportation, et cetera. You list other services, reproduction, total costs. These are in thousands. Let's take a detailed look at it.

(The page follows:)

Justifications by object class—Summary of request by object class

[In thousands]

	1963 actual	1964 estimate	1965 estimate	Increase (+) or decrease (−)
11 Personnel compensation	$8,904	$10,010	$10,990	+$980
12 Personnel benefits	639	713	835	+122
21 Travel and transportation of persons	387	379	433	+54
22 Transportation of things	41	20	20	
23 Rent, communications, and utilities	174	212	381	+169
24 Printing and reproduction	156	110	142	+32
25 Other services	147	227	239	+12
26 Supplies and materials	133	145	160	+15
31 Equipment	212	34	135	+101
Total cost	10,793	11,850	13,335	+1,485
Change in selected resources	+208			
Total obligations	11,001	11,850	13,335	+1,485

PERSONAL SERVICES

Mr. THOMAS. Put page 85 in the record concerning personal services.
(The page follows:)

Personal services and benefits—Summary of estimates

	1963 actual	1964 estimate	1965 estimate	Difference
11 Personnel compensation:				
Permanent positions	$8,642,314	$9,846,550	$10,912,000	+$1,065,450
Temporary positions	113,315	48,450		−48,450
Consultants	22,154	40,000	40,000	
Payment over 52-week base	125,950	75,000	38,000	−37,000
Total	8,903,733	10,010,000	10,990,000	+980,000

Personnel compensation has been estimated on the basis of 1,148 permanent positions for 1964 and 1,234 for 1965.

Cost of permanent positions

	1963 actual	1964 estimate	1965 estimate	Difference
Total permanent (Gross)	$9,740,570	$10,364,800	$11,046,280	+$681,480
Lapse	−958,378	−275,250	−134,280	+140,970
(Terminal leave payments)	(34,000)	(50,000)	(41,020)	
Decrease for lower pay scales part of year	−139,878	−243,000		+243,000
Total net permanent	8,642,314	9,846,550	10,912,000	+1,065,450

Mr. THOMAS (reading):

The total increased personnel compensation of $980,000 includes $474,000 for new positions and $506,000 to continue the authorized staff of the 1,148 through 1965, including provision for increased salary costs under Public Law 87-793 and within-grade promotions.

I note in your agency your within-grade promotions are on a parity with 2½ or 2⅞ percent of your payroll. Your in-grade promotion will be with you all along.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. That act ought to be a tremendous stimulus to your people, to get in and try to do a better job and get better employees. It is quite sizable.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. It is a good thing. We think the legislative committee came up with a good idea. Certainly, the agencies ought to show some benefits from it, too.

Mr. SWIDLER. I would hope so, sir, but as you know, we have limited discretion about these within-grade promotions.

Mr. THOMAS. That is exactly right. You have some discretion about whether you think you are getting your money's worth from it or not.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. That is what we are concerned with.

CONSULTANTS

You have 10 consultants. Consultants will be required in 1965 at the same level.

This specialized service is intermittently needed by the Commission.

Put the last part of page 86 and page 87 in the record.

(The material referred to follows:)

Summary of request

	1963 actual		1964 estimate		1965 estimate	
	Number	Cost	Number	Cost	Number	Cost
Consultants	9	$22,154	10	$40,000	10	$40,000

Consultants will be required in 1965 at the same level as programed for 1964, and about twice the 1963 experience due to the greater need of expert advice in the increasingly complex operations.

This specialized advice is intermittently needed by the Commission in the engineering, economic, financial, and accounting fields individually or collectively for the solution of many technical problems beyond the scope of skills possessed by Commission personnel.

We expect to use consultants to help us perfect criteria to enable us to provide incentives for greater efficiency for the companies we regulate. Consultants are needed because of the dynamic technological changes taking place in the power and gas industries. Since we could not possibly retain full-time employees in each of these new fields, consultants are invaluable to keep the Commission advised of new developments and their impact on the industries.

The development of economic and statistical models required for the equitable solution of economic problems relating to natural gas and electric power producers, buyers, and sellers requires the services of expert consultants.

Study of special technical matters such as evaluation of underground distribution systems, use of higher voltages in homes and use of synthetic insulations, require the services of consultants.

The estimate provides for 400 consultant days at $100 per day. The estimated 10 consultants will average 40 days each.

CONSULTANT RATE

Mr. THOMAS. What is the rate paid the consultant?

Mr. SWIDLER. It varies. The highest is $100 a day.

Mr. THOMAS. It provides for $100 a day for 400 consultant days. Is there any limitation?

Mr. SWIDLER. That is the limitation.

Mr. THOMAS. I mean the number of days.

Mr. SWIDLER. No, sir.

Mr. THOMAS. Where is your authority for $100 a day? Get out the act.

Mr. SWIDLER. It is in the act.

Mr. THOMAS. When did we raise this? It used to be $50. When was this put in?

Mr. SWIDLER. Two years ago.

CONSULTANTS USED BY FPC

Mr. JONAS. While we are on this subject, would you furnish a list of the consultants used this year with a brief statement of their qualifications?

Mr. SWIDLER. Yes, sir. This year or last year.

Mr. JONAS. The current year.

Mr. SWIDLER. So far this year.

(The information follows:)

PAUL A. SWEENEY: L.L.B., Georgetown University; 1933–60, Chief, Appellate Section, First Assistant and Acting Assistant Attorney General, Department of Justice; 1960–61, Commissioner, Federal Power Commission.

WALTON SEYMOUR: A.B., University of Wisconsin; 1929–47, economist, North America Co. and Tennessee Valley Authority; 1947–50, Director, Power and Program Staff, Department of Interior; 1958, present, Vice President, Development and Resources Corp.; served as consultant in various capacities on power resources development, both national and international.

MERRILL DEMERIT: B.S., University of Wisconsin; 1922–40, various engineering and managerial positions with West Penn Power Co.; 1940–60, Chief, Power Engineer, in charge of planning, design, and construction of distribution facilities, Tennessee Valley Authority.

Harold H. Wein: Ph. D., University of Pittsburgh; 1945–51, economist, Anti-Trust Division, Department of Justice; 1951–53, consultant and executive assistant, Slick Airways; 1954–59, associate professor of economics, Carnegie Institute of Technology; 1959–61, professor, business administration, Michigan State University; 1962–63, Chief, Office of Economics, Federal Power Commission; 1963 to present, professor, business administration, Michigan State University.

Richard C. Henshaw, Jr.: Ph. D., University of Texas; 1948–57, associate professor of business statistics, University of Texas; 1957–58, visiting associate professor of statistics, Stanford University; 1958 to present, professor of quantitative methods, Michigan State University.

Morris Mendelson: Ph. D., Cornell University; 1950–56, associate professor of economics, Pennsylvania State University; 1956–59, research staff, National Bureau of Economic Research; 1959–61, research associate, Harvard University; 1959–61, visiting lecturer, Massachusetts Institute of Technology; 1961 to present, associate professor, University of Pennsylvania.

Clifford Hildreth: Ph. D., Indiana State University; 1946–48, associate professor of economics, Indiana State University; 1949–52, associate professor of economics, University of Chicago; 1953–55, professor of agriculture and economics, North Carolina State University; 1955–58, professor of agriculture and economics, Michigan State University; 1958–60, professor of economics, Michigan State University; 1960 to present, professor of economics and agriculture, Michigan State University.

Edwin Mansfield: Ph. D., University of London (Fulbright scholar); 1955–60, assistant and associate professor of economics, Carnegie Institute; 1960–61, consultant to Westinghouse Electric and New York Central Railroad; 1961–63, visiting professor, Yale and Harvard Universities; 1963 to present, professor of economics, University of Pennsylvania.

Nathaniel B. Guyol: M.S., University of Chicago; 1935–42, geographer and regional planner, Tennessee Valley Authority; 1942–56, economist, Department of State and United Nations; 1956–63, staff economist, Standard Oil Co. of California.

Albert Stevens Fry: M.S., University of Illinois; 1913–31, engineer, Morgan Engineering Co.; 1931–33, engineer, Corps of Engineers; 1933–61, Chief, Hydraulic Data Branch, Tennessee Valley Authority.

Arnold C. Meltzer: M.S., George Washington University; 1955–61, student trainee and regulatory engineer, Federal Power Commission; 1961 to present, assistant professor of engineering and applied science, George Washington University.

Roland A. Kampmeier: M.S., State University of Iowa; 1933–62, hydraulic engineer, Chief, Power Economics Division, Director of Power Utilization and Assistant Manager of Power, Director of Power Supply, Tennessee Valley Authority; presently in consulting practice for various companies and governments.

TRAVEL

Mr. THOMAS. Put the table on the bottom of page 88 in the record. This deals with travel.

(The table follows:)

Travel and transportation of persons—Summary of request

	1963, actual	1964, estimate	1965, estimate	Difference
Natural gas industry	$179,901	$164,000	$174,000	+$10,000
Electric power industry	43,832	57,000	65,000	+8,000
Non-Federal hydroelectric projects	119,030	120,000	151,000	+31,000
Federal river development projects	15,921	13,000	18,000	+5,000
Administration	28,262	25,000	25,000	
Total	386,946	379,000	433,000	+54,000

Mr. THOMAS. It is up $54,000 this year. It is broken down between the electric power, gas, non-Federal, et cetera. You left out the Commission. How much does the Commission spend? They tell me the biggest travelers are the Commission. What do you spend?

Mr. SWIDLER. Do we have that broken down?

Mr. O'CONNOR. $10,000 for the five Commissioners.

Mr. TRAINOR. It is in the $25,000. There is no increase. It is the last item. It is part of that.

Mr. SWIDLER. The big increase, sir, is in connection with——

Mr. THOMAS. What does administration cover?

Mr. TRAINOR. That covers anything not covered by the functions above. It could be attending a meeting, or it could be travel by the Commissioners.

Mr. THOMAS. What is the policy of the Commission on travel?

This travel is too much. Let's reduce this. You have the natural gas industry, $174,000; electric power industry, $65,000; non-Federal hydroelectric projects, $151,000. What is that? Let's see your detail.

"The travel funds requested are necessary for field investigation." That is for the electric industry. These are done out of your regional offices?

Mr. SWIDLER. Most of it.

Mr. THOMAS. Your big item is non-Federal electric projects. [Reading:]

Travel required in this activity is devoted primarily to the supervision of licensed operations the investigation of unlicensed projects, and licensed project accounting.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS (reading):

Over 300 projects will require nearly 600 inspections in 1964 and 1965.

The fees collected are——

Mr. SWIDLER. Self-reimbursing.

Mr. THOMAS. You collected a million and a half dollars?

Mr. SWIDLER. No, sir. I think something like $2 million. About two and a quarter million for 1963.

Mr. THOMAS. How much for this particular project?

Mr. SWIDLER. All of these costs are reimbursable.

Mr. THOMAS. How much did you collect? I am trying to compare your travel cost with what you collect.

Annual fees from license, $2 million. Will that cover it?

Mr. SWIDLER. Yes, sir. Whatever the costs are we will get them back because under our new regulations, we allocate the costs, whatever they may turn out to be, among the licensees.

Mr. THOMAS. You spend a third of what you take in for travel. How many people are in this travel status? Let's see what their salary is. I am trying to show you by your own figures you are spending more than you get out of it. If you spend $433,000 for travel what are your salary costs?

Mr. O'CONNOR. Mr. Chairman, that would not be quite correct on the reimbursable part. It would be only $151,000 for travel on non-Federal hydroelectric projects.

Mr. THOMAS. What is your salary cost again? You are right. What is your other objects? You have about one-eleventh of it back. Where does the other ten-elevenths go?

Your travel costs ought not to be more than 5 percent of your salary costs.

Mr. CAPAR. The non-Federal activity cost was $1,749,590.

Mr. THOMAS. That is fees collected?

Mr. CAPAR. That is salary and other costs.

Mr. THOMAS. $1.7 million?

Mr. CAPAR. Yes, sir, in 1963.

Mr. O'CONNOR. Salaries and expenses includes this figure.

Mr. THOMAS. It looks like you lost money. You spent around $2 million to get back $1.7 million.

Mr. SWIDLER. Yes, sir. In the past we have. I tried to explain we have just revised our regulations so that we no longer base our fees on estimates of costs and then find out that we haven't estimated high enough. We now distribute among our licensees the actual costs whatever they prove to be.

NON-FEDERAL HYDROELECTRIC PROJECTS TRAVEL

Mr. THOMAS. Non-Federal hydroelectric projects: This is your big one.

Put pages 90 and 91 in the record.

(The pages follow:)

NON-FEDERAL HYDROELECTRIC PROJECTS TRAVEL

Travel required in this activity is devoted primarily to the supervision of licensed operation, the investigation of unlicensed projects, and licensed project accounting.

Over 300 projects will require nearly 600 inspections in 1964 and 1965. These inspections are made primarily by regional office personnel at various frequencies to insure that construction and subsequent operation of the licensed projects conform with approved plans and good engineering practice, and that constructed projects are operated and maintained in accordance with accepted safety and efficiency standards and in line with the terms of the Federal Power Act and the license granted by the Commission.

The investigation of unlicensed projects requires travel, principally by regional office engineers, to investigate unauthorized occupancy of streams and to obtain field data needed to determine Commission jurisdiction. Many hydroelectric projects continue to be operated without a license. The owners of some of these constructed projects are submitting applications for licenses, many are still studying the jurisdictional aspects involved and others have indicated that will resist making application. Show cause proceedings and hearings may be necessary in some cases. These, and every case where there is a question regarding jurisdiction will require field investigation.

The Federal Power Act requires that determinations be made of the legitimate original cost of licensed project property. Determining these costs requires an examination of the books and supporting records of the licensees maintained in the companies' offices located throughout the country. Accounting determinations which must be made include original cost, changes in plant costs, initial depreciation, changes in depreciation, and the nature and extent of amortization reserves. As the number of licenses increases, the workload for the accountants, who must examine the companies' accounts and records, also increases. Every new licensee must file an original cost statement within 6 months. Delay in examination of the companies' records complicates their examination, in that valuable records become lost or misplaced, or are destroyed, and new company personnel are unfamiliar with the companies' past operations.

We have estimated that we will need $151,000, an increase of $31,000 over our 1964 allowance, to make more and more adequate safety inspections of licensed projects as well as to investigate unlicensed project facilities. Also, we need to continue our effort to become more current in our licensed project accounting which was delayed in 1964 because of shortage of funds. This total amount of $151,000 is reimbursed by the licenses under part I of the Federal Power Act, and is not an additional cost to the Government.

Mr. THOMAS. This is your big one. You spend on that $151,000 and you want to increase it by $31,000.

Mr. SWIDLER. From $120,000 to $151,000. That is an increase of $31,000.

Mr. THOMAS. In 1963, you had $386,000; last year it was $379,000.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. I thought we reduced that 15 percent last year. You didn't even reduce it 5 percent. What was the general limitation in the bill last year?

Did you live up to the limitation in this year's bill on travel?

Mr. CAPAR. We don't have a limitation in our appropriation language. The travel estimate is much lower than the 15 percent under the general provision of our act though, sir.

Mr. THOMAS. What was your estimate for 1964?

Mr. CAPAR. It was $520,000.

Mr. THOMAS. How much?

Mr. CAPAR. $520,000 was our estimate in the 1964 budget.

Mr. THOMAS. Look at page 91. [Reading:]

We have estimated that we will need $151,000, an increase of $31,000 over our 1964 allowance, to make more, and more adequate, safety inspections of licensed projects as well as to investigate unlicensed project facilities. Also, we need to continue our effort to become more current in our licensed project accounting which was delayed in 1964 because of shortage of funds.

Mr. O'CONNOR. In Part I there is some work we have to do presently for municipalities that isn't completely reimbursable. There is a

small part that probably represents the discrepancy between the income and expenses.

Mr. THOMAS. Let's take a look at transportation of things, rents, utilities, printing, reproduction, and other services. You are getting up into the money in other services. You have employee training, research, power survey, $35,000.

AUTOMATIC DATA PROCESSING

Here is your ADP consulting and contracting, $180,000 last year down to $150,000, minus $30,000. Are you renting a machine?

Mr. SWIDLER. Not yet, sir.

Mr. THOMAS. Are you going to buy it? Does it fit your needs?

Mr. SWIDLER. We are planning to rent.

Mr. THOMAS. Is this the first time you bought one of these?

Mr. SWIDLER. I do not think we have bought one.

Mr. THOMAS. Is this the first time you have rented it? This present year is the first year, is it not?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. 1964?

Mr. CAPAR. 1964 will be the first year, sir.

Mr. THOMAS. What did you use the $180,000 for last year?

Mr. CAPAR. That is contractual services in which machine rental was included as part of the cost of the contract.

Mr. THOMAS. 1964 was your first year, then?

Mr. CAPAR. Yes, sir.

Mr. THOMAS. Do you have a contract to buy it?

Mr. CAPAR. No, sir. We do not. We plan to rent it.

Mr. THOMAS. Have you studied it carefully? Is it cheaper to rent it than it is to buy it? Which is the cheapest?

Mr. CAPAR. The studies which have been made show that purchase would be to our advantage but the decision has been made to rent a machince until we are sure our choice is correct. Then we will buy the machine in possibly 1966 or 1967.

Mr. THOMAS. What is the cost of operating the machine? How many employees, in other words?

Mr. CAPAR. About $150,000 worth.

Mr. THOMAS. How many employees do you have, 17, 18 to 20?

Mr. CAPAR. We have 17 in the EAM operation now.

Mr. THOMAS. Are they saving you any administrative costs or any help any place? I don't know as there is a reduction here.

Mr. SWIDLER. The principal use of this machine is in pulling together the data for the area rate proceedings. Without ADP equipment it would be pretty hard to conduct such a proceeding, which involves such masses of information from so many parties.

This ADP equipment is essential to this kind of proceeding.

Mr. THOMAS. How did you get along without it in 1963?

Mr. SWIDLER. Well, I think that the delay in using it probably accounts for some part of the time lag.

Mr. O'CONNOR. We started with the Permian Basin case.

Mr. THOMAS. Your budget shows you started in 1964 rather than 1963.

Mr. O'CONNOR. There was a little bit there in 1963.

Mr. THOMAS. Does it fit your needs? That is the primary thing.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. If you do buy it, be sure it fits your needs. Don't be like some of these other agencies. They find year after a year they have a white elephant around their neck. Be sure it fits your needs. It has been our observation throughout the agencies, and that is correct, is it not, gentlemen, that it is cheaper to buy them than rent them?

Mr. BOLAND. Provided you have some experience to make sure it fits your needs.

Mr. SWIDLER. That is what we are trying to do this year.

We will have a much better idea next year. In our present opinion we should buy, but we would rather not recommend that big expenditure before we have had a year's experience.

Mr. JONAS. I think you can lease it with a provision that what you pay out on lease will apply on the purchase price if you later buy it.

Mr. SWIDLER. We have such a provision.

Mr. THOMAS. I do not understand why you paid $180,000 last year for the same machine you are getting for $150,000 this year.

Mr. TRAINER. We did not have a machine last year. That was paid to use other people's machines.

Mr. BOLAND. I think it would be well to insert pages 99 through 102 in the record.

(The pages follow:)

AUTOMATIC DATA PROCESSING

FEASIBILITY AND SYSTEM APPLICATION

During 1962 the Commission completed an automatic data processing feasibility study. A determination was made that there exists a need for a medium-class computer to process the voluminous data for both the natural gas and electric power activities. The feasibility study concentrated on data processing which would directly support and expedite the case workload of the Commission.

On the basis of the feasibility study, more detailed systems analyses and designs of potential applications were initiated. ADP specifications were completed during 1963, and were released to manufacturers. Proposals were submitted to the Commission during December 1963. Selection of a computer that will most adequately and economically serve the needs of the Commission will be made early in 1964.

REASON FOR COMPUTER CAPABILITY

The underlying, ultimate objective in the use of automatic data processing equipment in the Federal Power Commission is to enable the Commission accurately to analyze and evaluate on a current basis data related to the electric and natural gas industries, and to use the results of these evaluations in regulatory proceedings, preparation of statistical data, and the development of regulatory policies.

OBJECTIVES OF THE COMPUTER

The immediate objectives of the computer systems which have been designed are (*a*) to provide effective support of the new regulatory concept—independent producer natural gas area rate proceedings, and (*b*) to make available to the Commission current and vital information and technical analyses about the electric and natural gas industries. The systems, as currently designed, will permit the Commission to make the maximum use of information much of which is already available in its files. Whenever possible, it is also planned to use a computer to improve the administrative processes within the Commission in areas such as workload controls and reporting status of production goals.

COMPUTER SYSTEMS

The current systems are designed to collect, analyze, and evaluate substantial quantities of data dealing with natural gas reserves; provide for computer analysis of natural gas rates; and summarize and correlate with cost data information pertaining to natural gas well drilling activity. The data will also be used in preparing exhibits for area rate proceedings. Emphasis will be placed on the maintenance of continuing systems for keeping delays in processing data to a minimum, thereby increasing the quality of production and permitting expeditious rate regulation.

The systems designed for electric power provide for establishing files reflecting the scheduled and proposed powerplants which will be constructed in the United States during the next 5 years. Summaries of peakloads, generating capacity and computation of indicated reserves will be prepared. Programs to determine the probability of electric power outages and load combinations for various geographic areas have been prepared and used. In addition, a proposed system for the computation of energy gains for headwater benefits is under study.

Improved management also calls for establishing mechanized time-distribution reporting in order to improve management control and manpower utilization throughout the agency. Incidental to time-distribution reporting, there will be the preparation of payrolls by computer.

Whenever economically advantageous, electric accounting machines applications, such as preparation of natural gas and electric power statistics, will be included in the computer systems.

COST

In order to implement automatic data processing most effectively during 1965, it is planned to lease ADP equipment to process the enormous quantities of data related to new area rate proceedings, economic and statistical data, certificate proceedings of natural gas pipelines, electric power engineering computations, and reporting and other Commission requirements. The estimated cost of leasing a computer for the period is $146,000. The alternative to Commission leasing would be a substantial cost increase in contractual services to allow computer processing by contractors during fiscal year 1965.

In-house capability will help to keep total data processing costs at a minimum.

Additional costs of $15,000 are estimated for materials and supplies for the computer installation. This includes items such as paper, magnetic tapes, and punched cards.

The increased cost of ADP rental during 1965 will be offset partially by a decrease in the projected needs for funds for service contractors. It is also planned to increase the ADP staff by one programer providing a staff increase from five to six employees.

The overall financial plan for ADP calls for keeping total costs for the entire program at a minimum, utilizing the advantages of contractor services only when it is most economical for the Commission. ADP consulting and contracting services are estimated at $150,000 during fiscal year 1965, compared to $180,000 during 1964. The services will be principally systems design and programing.

A comparative cost analysis of the economic gains of ADP for the Commission is extremely difficult in view of the fact that almost all applications in the systems design described above are new, especially those pertaining to area rate proceedings. However, the systems that have already been tested by using contractor services indicate that without ADP the Commission would need to recruit a substantial number of trained people to make the correlations required for rate analysis, the summaries and analyses provided for natural gas supply studies and the regression analyses which are basic to economic studies. The extreme accuracy and speed of the computer outputs as compared to the efforts of clerical personnel is needed to meet Commission work schedules. The utilization of a computer for the designed systems will help level off the increasing requirements for personnel.

Mr. THOMAS. You have increases in other services. You have maintenance and repair. That is not sizable. That is about $5,000. It is up to $13,000.

OFFICE SPACE

Construction and alteration is $28,500. What is that for? I thought Mr. Boutin took pretty good care of you.

Mr. TRAINOR. As we move we have consolidation of space and other arrangements that we have to perform.

Mr. THOMAS. What is the expenditure of $28,000?

Off the record.

(Discussion off the record.)

Mr. SWIDLER. The major advantage is for the commissioners to have adjoining offices. We are now a block apart. It will enable us to bring our staff nearer to us and enable us to dispatch our business without a lot of dead time. We are now getting the cooperation of GSA and consolidating our staff within the GAO building. As you know, we surrendered whatever claim we had to sharing in FOB No. 9 and instead of that we are trying to do our best to make efficient use of the space within the GAO building.

PRINTING AND REPRODUCTION

Mr. THOMAS. Let's look at printing and reproduction. It shows an increase of $32,000.

Insert the printing breakdown on pages 93 and 95.

(The material follows:)

Printing and reproduction

	1963 actual	1964 estimate	1965 estimate	Increase (+) or decrease(−)
Public use forms	$11,501	$9,000	$9,000	----------
Publications	96,345	62,300	80,400	+$18,100
Maps	9,734	3,100	10,000	+6,900
Binding	1,364	500	500	----------
Legal briefs	10,341	15,000	15,000	----------
Field requirements	4,577	4,600	4,600	----------
Miscellaneous	22,336	15,500	22,500	+7,000
Subtotal	156,198	110,000	142,000	+32,000

PRINTING AND REPRODUCTION

Although an increase of $32,000 over 1964 will be required in 1965, experience has shown that actual cost is invariably higher than the estimates. The 1963 estimate for printing, shown in the 1964 budget, was $117,700 but actual cost amounted to $156,198 by the end of the year. The 1965 estimate is $14,198 under the actual amount for 1963. The estimate for recurring publications of $80,400 is based on foreseeable demands. While it is $18,100 over 1964, it is $15,945 less than 1963. Estimates for public use forms, maps, binding, legal briefs, and field requirements are at approximately the 1963 rate. Miscellaneous printing costs are estimated at $22,500, which is $7,000 over 1964, for IBM forms, punchcards, gas reports, and supplies.

NUMBER AND COST OF PUBLICATIONS

Mr. THOMAS. Also supply a a breakdown of the $80,400 for publication.

(The breakdown referred to follows:)

FPC publications—Fiscal year 1965

	Sales price	Cost to produce	Number of copies for FPC
Electric publications:			
Typical Electric Bills	$0.60	$800	1,000
All-Electric Homes, Annual Bills	.20	1,200	1,500
National Electric Rate Book (50 State sections)	(1)	4,100	225
Electric Power Statistics (monthly)	(2)	2,000	225
Includes: Production of electric energy and capacity of generating plants in the United States, monthly and annually; electric utility system loads, monthly; consumption of fuel for production of electric energy, monthly; sales of electric energy by class of service, monthly.			
Steam-Electric Plant Construction Costs and Annual Production Expenses	1.25	1,300	350
Hydroelectric Plant Construction Costs and Annual Production Expenses	.60	700	750
Statistics of Electric Utilities in the United States, Privately Owned	2.25	3,500	375
Statistics of Electric Utilities in the United States, Publicly Owned	1.00	1,000	500
Total, electric publications		14,600	
Gas publications:			
Statistics of Natural Gas Companies	1.00	1,600	550
Sales by Producers of Natural Gas to Gas Pipeline Companies	1.25	800	1,000
Regulations Under Natural Gas Act	1.25	800	2,000
Natural Gas Act	.25	400	1,000
Uniform System of Accounts—Natural Gas Companies	.50	400	1,000
Natural Gas Rate Book (annual)	(1)	2,000	225
Rates for Gas Delivered at City Gate of Major Cities	.60	400	1,000
Total, gas publications		6,400	
Other publications:			
Consumption of Fuel—Annual Summary	.35	400	500
Rules of Practice and Procedure	1.00	1,000	2,000
Annual Report of Federal Power Commission	.65	2,500	1,200
Opinions and Decisions:			
Advanced sheets of vols. 32 and 33 for the period July 1964–June 1965	(3)	42,000	250
Binding vols. 27 and 28 for calendar year 1962	3.50	9,500	300
Water Resources Appraisals Studies		4,000	500
Total, other publications		59,400	
Grand total, publications		80,400	

[1] $0.25 each; $8 subscription.
[2] $2.50 subscription.
[3] $6 year.

Mr. THOMAS. The total bill is $142,000. Rents and utilities go up $169,000. Here is rent on ADP equipment, $183,400. Why? You have $150,000 down here and $183,000. There is $333,000.

Mr. PILCHER. That is actual rent of the new computer proposed for 1965. It is carried in the item as "Rent, EMA and ADP equipment."

For the actual rental of the new computer when we make the decision on which equipment fits our needs, it will be the amount shown here, an increase of $133,000 for new equipment plus some $49,000 for the equipment we presently have, which is not computer, but simply tabulating equipment.

Mr. THOMAS. As I see it, you have consulting and contracting, $150,000, under other services you have $183,000, under "Rents and utilities" and "Rent of Xerox equipment" you have about $26,000. Where is your offset in savings and manpower?

Mr. PILCHER. Xerox is a printing-type equipment.

The item under "Other services" of $180,000 is our present method of securing computer service where we contract for the actual preparation and processing of the program.

Mr. THOMAS. We understand exactly what you are doing with it. We are asking you, Do you have any offset saving in personnel costs here? Without Xerox you would have to have somebody over there doing the same job. Xerox is supposed to do the job of about—what, 10 or 12 people; isn't it?

Mr. PILCHER. I see what you are getting at. The Xerox has permitted our present printing plant without an increase in staff to carry out the additional printing work that has resulted from the Commission's activities.

TELECOMMUNICATIONS SERVICE

Mr. THOMAS. TWX and telephone goes up $8,500. What experience are you having with Mr. Boutin's crowd and his division of utilities? You have common telephone, long line, spoken word. Is that running up your communication bill or reducing it?

Mr. PILCHER. I think the new system has cost us about $1,000 more a year. We are not heavy users of this long-distance telephone service.

Mr. THOMAS. You are not in Mr. Boutin's system yet?

Mr. PILCHER. Yes, sir. We are in the Federal telecommunications system.

Mr. THOMAS. Do you find it saves you any money?

Mr. BOLAND. We are talking about long lines; the communications system set up by GSA.

Mr. PILCHER. I do not have the figures.

Mr. TRAINOR. I do not think we have used it enough to tell.

Mr. THOMAS. Have you had a chance to look into this, Commissioner?

Mr. SWIDLER. No, sir.

Mr. BOLAND. Did GSA ask you to put an item in the budget for the telecommunications system? Did they specifically tell you to put in so much in this budget?

Mr. PILCHER. No, sir.

Mr. BOLAND. They have asked other agencies.

Mr. O'CONNOR. I think our largest expense is probably telegraph because we have to send out notices of meetings and filings.

RENT

Mr. BOLAND. Where is the item on renting additional space? What is the $16,200 item for, rent of additional space?

Mr. TRAINOR. That is part of the first year's rent that GSA has not budgeted for and this will be transferred to GSA. That is because we will be getting more space this year.

Mr. BOLAND. I have no more questions on this. Do you have any questions?

Mr. JONAS. I do not have any questions.

REDUCTION IN FORCE

Mr. SHIPLEY. I am asking these questions for Mr. Evins, because he cannot be here this afternoon as he is presiding over the House at the request of the Speaker.

Mr. Chairman, I am sure you are acquainted with the Jerry Klutz article in the Washington Post, February 6, 1964, and also the Evening Star editorial by Joseph Young of December 16, 1963, where they say in text, and if I may quote:

> Layoffs at the Federal Power Commission, where employees with as much as 30 years of Federal service are being rifted, will be investigated by a congressional committee.

And then in the Washington Post they say:

> For a relatively small agency, Federal Power is having more than its share of personnel problems and the House Manpower Subcommittee is prepared to investigate.

It goes ahead to say:

> First, the agency has fired 39 employees shortly before Christmas, old timers among them, and there are those who charge new employees have been brought in since and that most of the layoffs were unnecessary.

Would you like to comment on this, please?

Mr. SWIDLER. Yes. I would be glad to.

I think you know the circumstances of the reduction in force. The appropriation that was made available in December 1963 was less than enough to enable us to maintain our staff.

Because of the problem of payment for accrued leave, terminations have to be effected as early as possible in the fiscal year or you don't save any money on them in that fiscal year.

We had the problem of somehow bringing our budget within the amount Congress had appropriated for us.

The terminations were greater because of the fact that with the 30-day notice requirement the earliest they could be put into effect was as of the beginning of the calendar year, January 1.

Had we delayed giving those notices until after the holidays instead of doing it about December 1, we would have had to lay off a significantly greater number of employees. This was the reason that we gave the notices as promptly as we could. Every day that we saved in the issuance of notices reduced the number of affected employees.

Mr. SHIPLEY. How many changes did you make?

Mr. SWIDLER. There were 56 changes in all. We prepared reduction in force registers and went through the procedures prescribed by the civil service regulations.

On December 5 and 6, reduction in force letters were issued to 39 employees. The other 17 positions to be reduced were obtained from resignations, retirements, and other separations. Of the 39 to whom the RIF letters were issued, 6 submitted retirement papers and 2 were reassigned to lower grades. Of the 31 persons remaining, 7 held temporary appointments. This left 24 permanent employees and of course with respect to these employees we did our best to find other positions for them.

We forwarded résumés of their experience to 22 Federal agencies seeking their assistance in placing them.

Mr. THOMAS. What was your turnover in your agency last year? I asked you that before. You are bound to have 15 or 20 percent vacancies. You could not fill vacancies and not fire anybody.

Mr. SWIDLER. Our turnover ratio is currently about 17 percent annually.

Mr. THOMAS. What part of the people did you let go?

Mr. SWIDLER. None as far as I know.

Mr. THOMAS. What were their grades?

Mr. SWIDLER. I don't have that breakdown here, sir.

Mr. THOMAS. Any further questions, gentlemen?

Mr. SWIDLER. We have released 19 permanent and 5 temporary employees to report to other Government agencies and 3 with outside firms. I think we have succeeded in replacing almost all of these employees.

Mr. SHIPLEY. Mr. Chairman, if it is all right with the committee, if you would care to extend that or correct the record that will be fine.

Mr. SWIDLER. I would appreciate that.

(The following was submitted for the record.)

In October 1963 when the action of the House indicated that our 1964 appropriation request would be severely cut, we had 1,143 permanent employees on the Federal Power Commission payroll, the same number as were employed at the end of the 1963 fiscal year. With increased salary and other costs, the $11,850,000 which was appropriated in December 1963 was insufficient to meet the salaries of 1,143 for the full year. Based on our best estimates, we concluded that it would be necessary to reduce our force at once by about 56 positions to keep our expenditures for fiscal 1964 within the funds appropriated by Congress. We could not delay because, with the required notice period, we had less than a half year to effect the required savings. Any delay would have increased the number to be reduced. The effect is more than proportional to the delay because of the leave factor. Many of the incumbents had substantial accrued leave which must be paid upon separation. For example, no savings would result if a person were separated at the end of March, and had 90 days' accumulated leave.

During the period in November, December, and early January, 17 people resigned, retired, or were separated. These positions were deducted from the 56 required to be reduced, since the positions were not to be filled. This left 39 additional positions to be eliminated to provide funds sufficient to carry us through the balance of the fiscal year. Of these 39 of whom reduction notices were issued, 6 retired and 2 were reassigned to lower grades. Of the 31 persons remaining, 7 held temporary appointments. Twenty of the 39 people reduced had been hired during the 1963 fiscal year, and 2 were hired early in fiscal year 1964. All reductions were made in accordance with procedures established by the Civil Service Commission. We have attempted to find positions in other agencies for the people involved, and all but four are now employed in positions comparable to those which they held with us.

Upon completion of our reduction in force as of the end of January 1964, we had 1,078 employees on the rolls, which was a net reduction of 65 from the October 30, 1963, figure of 1,143. We have 1,069 employees on our rolls as of February 24, 1964, which is a further reduction of 9 from the January 31, 1964, figure.

The only employees we have hired during this period are 12 people to replace others who have resigned. They are included within 1,069 employees now on board so that there has been a net decrease in total employees since the reduction in force.

GS–3	clerk-typists	2
GS–4	clerk-stenographers	3
GS–6	secretary	1
GS–9	secretary to Commissioner	1
GS–11	economist	1
GS–12	training officer	1
GS–16	Assistant General Counsel	1
GS–16	chief of division (engineer)	1
GS–18	chief accountant	1
	Total	12

The money to finance these will be from attrition to June 30, 1964.

Any reduction in force is difficult and painful, but I believe that our employees understand the necessity for the reduction in force and that morale in the FPC has not been materially affected.

Mr. JONAS. Before we leave this, have you had any hires since December 1?

Mr. SWIDLER. Hirings?

Mr. JONAS. Yes.

Mr. SWIDLER. I think there may have been some replacements. We have not had any expansion.

Mr. TRAINOR. We had a few replacements mostly at the clerical level.

Mr. SWIDLER. How many people have you taken on since December 1, 1963?

Mr. TRAINOR. December 1, 1963—I have it from October 7.

Mr. JONAS. I just wanted to know how many you hired since you sent out the RIF notices.

Mr. TRAINOR. I will get you that figure. I am sure it is quite small.

(NOTE.—12 employees have been hired during this period. See statement on p. 914.)

Mr. JONAS. That is one of the criticisms that appeared in the paper. I was sure you would know that. The question I want answered is why you hired any to replace those you fired or forced to quit?

Mr. SWIDLER. Well, sir, if you need a secretary you cannot count her against someone in an entirely different category.

Mr. JONAS. You said you disposed of these people, not because they were inefficient or unsatisfactory but only because you were limited by the money that was available.

Mr. Thomas asked you to state the amount of turnover you have normally, thinking that you could have absorbed the cut, or could have taken care of this by attrition. You weren't willing to risk that, you said, so you sent out notices to 39 people that they were fired, solely on the grounds that you would not have enough money.

That is a little inconsistent, if the record shows you have hired some people since.

Mr. SWIDLER. What I am trying to say is that these people are not interchangeable. I didn't intend to imply that any 39 people would do. If you get a resignation from a position that has to be refilled, you have got to refill it.

Mr. JONAS. What are you going to pay this secretary with that you say you have had to hire? If you had to have a secretary, you couldn't use a secretary to replace a technical man. What are you going to do for money to pay this secretary or these people you hired if the only reason you fired people is because you did not have enough money to pay them?

Mr. SWIDLER. We brought our budget down to a point where we could maintain it and if we later got resignations we could replace people. That is all we have done.

Mr. JONAS. You have 17 resignations but you have sent notices out to 39 people that you were going to fire them and then 6 elected to retire.

You actually fired about 30.

Mr. SWIDLER. Yes, sir.

Mr. JONAS. Now I want to know how many you have hired since.

Mr. SWIDLER. We are going to give that figure, sir.

Mr. JONAS. And where are you getting the money to pay them.

Mr. SWIDLER. We are getting the money from the fact that we

have brought our number of employees down to the number that we could continue to the end of the fiscal year.

Mr. JONAS. Plus the additions. You have added to it.

Mr. SWIDLER. There have been no net additions, sir.

Mr. JONAS. There have been no net additions but you have replaced some of those you fired with new hires.

Mr. SWIDLER. Yes, sir.

Mr. JONAS. That doesn't answer the question. Certainly if you fire 39 and hire 10, you have got a net reduction, but you could have fired 10 fewer than you did.

Mr. SWIDLER. If you could count on the future resignations coming where you could spare the people, but we had to be sure that we would be able to the best of our ability to carry on our workload with a reduced staff when these people left.

Mr. JONAS. That is all.

Mr. BOLAND. Off the record.

(Discussion held off the record.)

Mr. BOLAND. Thank you very much, gentlemen. This has been very helpful.

THURSDAY, FEBRUARY 20, 1964.

FEDERAL TRADE COMMISSION

WITNESSES

PAUL RAND DIXON, CHAIRMAN
PHILIP ELMAN, COMMISSIONER
A. EVERETTE MacINTYRE, COMMISSIONER
JOHN R. REILLY, COMMISSIONER
JOHN V. BUFFINGTON, ASSISTANT TO CHAIRMAN
JOHN N. WHEELOCK, EXECUTIVE DIRECTOR
PHILIP R. LAYTON, PROGRAM REVIEW OFFICER
WILLIAM P. GLENDENING, COMPTROLLER
JOSEPH W. SHEA, SECRETARY
JOHN A. DELANEY, DIRECTOR, OFFICE OF ADMINISTRATION
JAMES McI. HENDERSON, GENERAL COUNSEL
JOSEPH E. SHEEHY, DIRECTOR, BUREAU OF RESTRAINT OF TRADE
DANIEL J. MURPHY, DIRECTOR, BUREAU OF DECEPTIVE PRACTICES
HENRY D. STRINGER, DIRECTOR, BUREAU OF TEXTILES AND FURS
SAMUEL L. WILLIAMS, DIRECTOR, BUREAU OF FIELD OPERATIONS
WILLIARD F. MUELLER, DIRECTOR, BUREAU OF ECONOMICS
WILLIAM B. SNOW, ASSISTANT DIRECTOR, BUREAU OF INDUSTRY GUIDANCE
GALE P. GOTSCHALL, ASSISTANT TO DIRECTOR, BUREAU OF DECEPTIVE PRACTICES
FREDERICK IRISH, CHIEF, DIVISION OF SCIENTIFIC OPINIONS, BUREAU OF DECEPTIVE PRACTICES
CHARLES A. SWEENY, CHIEF, DIVISION OF FOOD AND DRUG ADVERTISING, BUREAU OF DECEPTIVE PRACTICES
JOSEPH J. GERCKE, CHIEF, DIVISION OF COMPLIANCE, BUREAU OF RESTRAINT OF TRADE
JULIAN W. SNYDER, ASSISTANT COMPTROLLER

SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	9,399	10,168	10,841
	Positions other than permanent	2	2	2
	Other personnel compensation	61	116	116
	Total personnel compensation	9,462	10,286	10,959
12	Personnel benefits	688	763	814
21	Travel and transportation of persons	495	490	605
22	Transportation of things	10	8	22
23	Rent, communications, and utilities	226	257	230
24	Printing and reproduction	130	100	130
25	Other services	63	117	131
	Services of other agencies	72	29	44
26	Supplies and materials	190	150	171
31	Equipment	235	15	164
	Total program costs	11,571	12,215	13,270
	Unfunded adjustments	−47		
	Change in selected resources	−68		
	Total obligations	11,456	12,215	13,270

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	1,178	1,178	1,205
Full-time equivalent of other positions	3	3	3
Average number of all employees	1,143	1,151	1,189
Employees in permanent positions, end of year	1,166	1,172	1,200
Employees in other positions, end of year	11	3	5
Average GS grade	9.1	9.1	9.0
Average GS salary	$8,455	$9,024	$9,093

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Antimonopoly:			
(a) Investigation and litigation	4,766	5,243	5,810
(b) Economic and financial reports	624	655	745
(c) Trade practice conferences, industry guides, and small business	131	154	200
(d) Compliance investigations for Attorney General	892	594	65
2. Deceptive practices:			
(a) Investigation and litigation	3,042	3,267	3,680
(b) Trade practice conferences, industry guides, and small business	262	310	400
(c) Textile and fur enforcement	975	1,054	1,390
3. Executive direction and management	270	298	315
4. Administration	609	640	665
Total program costs [1]	11,571	12,215	13,270
Unfunded adjustments to total operating costs:			
Property transferred in without charge	−30		
Loss on sale of fixed assets	−17		
Total program costs, funded	11,524	12,215	13,270
Change in selected resources [2]	−68		
Total obligations	11,456	12,215	13,270
Financing: Unobligated balance lapsing	16		
New obligational authority	11,472	12,215	13,270
New obligational authority:			
Appropriation	11,472	12,215	13,270
Transferred to Operating expenses, Public Buildings Service, General Services Administration (76 Stat. 728)	−1		
Appropriation (adjusted)	11,472	12,215	13,270

[1] Includes capital outlay as follows: 1963, $235,000; 1964, $15,000; 1965, $179,000.
[2] Selected resources as of June 30 are as follows:

	1962	1963	1964	1965
Stores	7	7	7	7
Unpaid undelivered orders	107	39	39	39
Total selected resources	114	46	46	46

Mr. THOMAS. Will the committee come to order?

This is a very happy occasion for the committee. We welcome with great interest and sincerity our many friends from the Federal Trade Commission. It is nice to have with us the very able and genial Chairman, Mr. Dixon, Commissioner Elman, Mr. MacIntyre; we have our very handsome and new Commissioner, Brother Reilly.

We will have to induct him and confirm him later. Have we inducted him and confirmed him yet, gentlemen? His position is really

not legal until we confirm him. We have with us Mr. Buffington, assistant to the Chairman. Where is Brother Wheelock?

Mr. WHEELOCK. Right here, Mr. Chairman.

Mr. THOMAS. It is good to see you look so good, Judge. We have Brother Layton, the program review officer. Where is Brother Glendening?

Mr. GLENDENING. Right here, sir.

Mr. THOMAS. Nice to see you, sir.

Mr. THOMAS. Where is Mr. Shea?

Good to see you, Mr. Shea. We have Mr. Delaney, Director, Office of Administration, and Mr. Henderson, from north Texas, General Counsel. He comes up in this country and complains he cannot get black-eyed peas. Where is Brother Sheehy?

Mr. SHEEHY. Right here, sir.

Mr. THOMAS. Judge, we were worried about you last year. We are delighted to have you back. We hope you are well, feeling better and have your strength back.

Mr. SHEEHY. Thank you very much, Mr. Chairman.

Mr. THOMAS. Mr. Murphy is Director of the Bureau of Deceptive Practices; Mr. Stringer, Director, Bureau of Textiles and Furs; and Mr. Williams, Director, Bureau of Field Operations. Where is Dr. Mueller, Bureau of Economics? Doctor, good to see you. You know, every crowd is entitled to at least one Ph. D.

We have Mr. Snow, Assistant Director, Bureau of Industry Guidance.

Mr. JONAS. To look at Mr. Snow you wouldn't think I was once his counselor at a boys' camp, would you?

Mr. THOMAS. Good to see you.

Mr. SNOW. That was many years ago.

Mr. JONAS. He is a good old North Carolinian.

Mr. THOMAS. Mr. Snow, you will remember, we set you up in business about 12 or 15 years ago. Maybe you were down in Mr. Jonas' camp about that time. We look over your activities with great interest.

Where is Mr. Gotschall?

Mr. GOTSCHALL. Right here, Mr. Chairman.

Mr. THOMAS. How are you doing, Judge?

Mr. GOTSCHALL. Fine, thank you.

Mr. THOMAS. You don't have any headaches, do you?

Mr. GOTSCHALL. Only a few.

Mr. THOMAS. Mr. Irish is with us; Chief, Division of Scientific Opinions, Bureau of Deceptive Practices. Where is he? He has his hands full.

How are you feeling, Judge?

Mr. IRISH. Pretty good.

Mr. THOMAS. Mr. Sweeny, Chief of the Division of Food and Drug Advertising in the Bureau of Deceptive Practices; and Mr. Gercke, Chief, Division of Compliance, Bureau of Restraint of Trade, and where is Brother Snyder?

Mr. SNYDER. Right here, Mr. Chairman.

Mr. THOMAS. You had better get your feet under the table here.

Mr. DIXON. We do not have listed Miss Hardy behind me here.

Mr. THOMAS. We certainly do not want to overlook the young lady. We are delighted and honored to have her. Have I overlooked her name?

Mr. DIXON. I don't think she is on here. She is not on here. She should be on here.

Mr. THOMAS. Let's put her first on the list. What is her job over there?

Mr. GLENDENING. Senior budget analyst.

Mr. THOMAS. Off the record.

(Discussion off the record).

BIOGRAPHY OF COMMISSIONER REILLY

Mr. THOMAS. Mr. Chairman, do you and your fellow Commissioners want to talk to us? We are anxious to talk with you. Tell us something about what is going on. Before we get into that, let's induct our new Commissioner, our distinguished friend. He is well and favorably known to most of the committee. Tell us something about yourself, Mr. Commissioner.

Mr. REILLY. Mr. Chairman, I have been on the Commission approximately 2 weeks. I am not sure how much I will be able to add today.

I am pleased to be here.

Mr. THOMAS. Anyway, we are delighted to have you.

Mr. REILLY. I am pleased to be here.

Mr. THOMAS. Tell us your background.

Where did you go to school, et cetera?

Mr. REILLY. I was born in Dubuque, Iowa, in 1928.

Mr. THOMAS. What town?

Mr. REILLY. Dubuque.

Mr. THOMAS. I am from Iowa, myself.

Mr. REILLY. On the Mississippi.

Mr. THOMAS. You and Congressman Ben Jensen have been doing business for a long time, have you not?

Mr. REILLY. He is from the other side.

Mr. BOLAND. I do not think Jack has ever talked to him.

Mr. THOMAS. Doesn't he have that Mississippi country or is it the Missouri?

Mr. BOLAND. He has the Missouri.

Mr. REILLY. I was educated in the University of Iowa, went to law school there, graduated in 1955. I went into the Antitrust Division of the Justice Department in Chicago and spent 3 years there as trial attorney. I went from there to the Council of State Governments, an organization of State officials, and worked primarily for the National Association of Attorneys General. Mr. Wyman at the time was president, I believe, of the association; also, the Conference of Chief Justices. I left the Council of State Governments and went into the campaign for President Kennedy; worked for Larry O'Brien and the Attorney General.

After the election I went to the Justice Department as the head of the Executive Office for U.S. Attorneys.

I think at this point I should go back to the Council of State Governments. Mr. Ostertag was one of the founders, I believe; weren't you, sir?

Mr. OSTERTAG. Yes.

Mr. THOMAS. You will be confirmed right off the bat.

Mr. OSTERTAG. I was the first Chairman of the Board.

Mr. REILLY. Then I was in the Justice Department as head of the Executive Office for U.S. Attorneys and nominated by President Kennedy in October, renominated by President Johnson in January, confirmed and took office 2 weeks ago.

Mr. THOMAS. How old are you?

Mr. REILLY. Thirty-five, sir.

Mr. THOMAS. Just about our age. We are delighted and honored to have you. We wish you well.

Mr. REILLY. Thank you very much.

Mr. THOMAS. Go ahead, Mr. Chairman. You and the Commissioners talk to us. You haven't talked to us in a long time.

Mr. DIXON. He will be grayheaded pretty soon, sir.

Mr. OSTERTAG. You mean you get that way?

Mr. DIXON. I think that happens.

Mr. THOMAS. Look at him. The Chairman hasn't lost a hair. He has sprouted hair since he has been over there.

GENERAL STATEMENT

Mr. DIXON. Mr. Chairman, it is good to be back here again and to report to you and ask for some funds to continue our work.

"In 1964 and beyond," President Johnson said in his Economic Report to the Congress, "we seek a free and growing economy which encourages free enterprise, innovation, and competition by citizens in all walks of life." The Federal Trade Commission is a law enforcement agency directed toward maintaining the free play of competition in the effective functioning of our free competitive economy. The fiscal 1965 Commission budget has been guided by three principles—to protect the American consumer and small business from unfair business practices, to promote vigorous competitive business activity, and to do this vital job by practicing frugality through real economies in Commission operations.

The budget request for the FTC in fiscal 1965 totals $13,270,000 which, while an increase of $1,055,250 over the 1964 appropriation, only provides for an increase of 27 positions and $171,000 for new positions and $159,000 in increased operating costs. The balance of $725,000 will be required for necessary costs in 1965 over which this agency has only limited control. Included in this total is $250,000 for a half year cost of the pay raise that went into effect on January 5, 1964, restoration of reductions required in our enforcement programs in 1964 amounting to $106,250 in personal services and $115,000 in travel funds, $114,000 to purchase the electronic computer now on a rental basis, which will result in a saving to the Government of $41,000 per year beginning 2 years after purchase, in addition to a $29,000 saving of rental costs in 1965, and $140,000 for within-grade promotions and to protect the Government's investment in young attorneys on our staff by reducing uneconomical turnover through a promotion program in line with their demonstrated abilities and salary scales comparable with private law firms and private industry.

This budget request for fiscal 1965 provides the Commission with the minimum of personnel required to function under its legal obligations to protect the American people from hazardous consumer products, price-fixing agreements, and product misrepresentations. This budget covers preventive measures involved in our programs to advise and guide businessmen on the requirements of the law entrusted to the Commission, in order that costly legal investigations and formal hearings might be avoided whenever practicable, thereby saving money for the public, business firms, and the Government.

The Commission's budget makes provision for a long-delayed necessary program to check up and determine compliance with the Commission's outstanding cease and desist orders against violators of laws it administers, particularly where resumed violations might increase significantly the cost of essential goods and services which consumers must purchase.

Mr. THOMAS. Might I interrupt you on that point? I notice on page 50 of your justifications you go into quite some detail, saying you will wind up your activities at the tail end of 1964 and transfer your people over to the Bureau on a permanent basis. That is, the Bureau of Deceptive Practices. It slipped our attention. What was the original number of people assigned to that work? Was it 60 or 75? We cannot put our finger on it in our hearings. It was 3 years ago. Was it 60 or 75?

Mr. DIXON. It was 70, sir.

Mr. THOMAS. You asked for 90.

Excuse me. Go ahead.

Mr. DIXON. The millions of dollars invested in obtaining these Commission orders against unlawful business practices are wasted unless such orders are obeyed by companies covered, and checked by the Commission for compliance. The purpose here is to shore up our previous investment in investigation and litigation, and to save larger expenditures which would be involved later in prosecuting widespread violations likely to result from inadequate enforcement of existing orders.

COMPARISON OF FTC GROWTH TO NATIONAL ECONOMY

Mr. Chairman, at this point I am going to digress a moment and pass to each of you a chart and ask you if you will look because it has been my experience when I have come here you have been most kind to this agency, in my opinion since I have been there, but I have been trying to explain to you what our real problem is in workload.

The chart I have given you was just handed to me this morning. I asked that it be made up. This is a comparison of the Federal Trade Commission employment with other significant series, 1936–40.

If you will notice that black line at the bottom, that represents the number of Federal Trade Commission employees from 1936 to 1963. You will notice the growth of corporations, active corporations, in comparison to Federal Trade Commission employees and you will also notice the increase of the gross national product, which is shown on the next line.

Mr. THOMAS. This is a very good argument. We are not going to say we are two jumps ahead of you, but we are riding along with you. You just cannot make a valid comparison on that basis.

What you are saying is you catch one for one. Every time you go after a corporation you have a certain number of employees to go along and police them.

Mr. DIXON. I hope you don't interpret it that way. That is one of the factors here. The number of corporations we are required to pay attention to, notice how it is listed. The most interesting thing is over at the end in very small print.

Mr. THOMAS. Go one step further. The country has gained how many millions?

Mr. DIXON. We are a $600 billion gross national product as of the last quarter.

Mr. THOMAS. We have 180 million people. We have gained something like 15 or 20 million people in the last 7 or 8 years.

Mr. DIXON. There are three times the number of people. The number of businesses that are within this $600 billion package that we are supposed to protect and keep unfair practices and deception away from the consumer are astronomical but over at the end is the figure I wanted to point to your attention. Since this period started the Congress has passed four basic consumer laws in addition to the Clayton Act Amendment, section 7. If you will deduct the number of employees that we have assigned to those programs, we have 389 employees, and you will find that this leaves 789 employees for the work that the Commission has been doing constantly as this increased. This was interesting to me. It pictures what I have been trying to say to you, Mr. Chairman.

INCREASED COST OF PERSONAL SERVICES

I notice another thing, that we get less for our dollar. I merely ran back to 1950. Starting in 1951 this Congress gave the Commission $3,891,695. This supported 684 employees. In 1952 we got $4,314,000 and we lost 12 employees.

In 1953 it was $4,178,000. We lost another 30 employees. We had 642 that year. In 1954, $4,053,000; the employment went down to 596. This is what money would buy you. In 1955, $4,129,000 supported 584.

Mr. THOMAS. We are quite familiar with those figures, maybe more so than you are. The more pertinent question is—you are making it more obvious as you go along—Why have you increased your budget so much?

Mr. DIXON. This is what I am trying to illustrate. With the more increases we get we seem to find ourselves more behind. I have a feeling that I am swimming upstream standing still, sir, but we are doing the best we can, because for the past 2 years we have had no increase, for instance, in the restraint of trade work, not one penny. That work is still mounting. This year we get an increase in the deceptive practice work, primarily for the textile and fur work.

RECENT GROWTH IN EMPLOYMENT

Mr. OSTERTAG. But your budget has tripled since the time that you mentioned in your comparison?

Mr. DIXON. You are quite correct. For instance, in 1952, when we had 672 employees, it was $4,314,000 and we got $12 million last year.

Mr. THOMAS. Forget the dollars for a moment. Since he has been head of the FTC, he has added about 400 employees. He took it over with about 800 employees and he has something better than 1,200 jobs now.

Mr. DIXON. We have only 1,150 on board today.

Mr. OSTERTAG. That is a substantial number.

Mr. DIXON. That is true, sir.

Mr. OSTERTAG. Within the last 10 years you have more than doubled your employees and you have tripled your budget.

Mr. DIXON. The last 10 years?

Mr. OSTERTAG. You were speaking in terms of 500 some employees.

Mr. DIXON. 1954, 596. We now have 1,150. That is somewhere about correct. It was $12 million in 1964.

Mr. OSTERTAG. You should not have too much complaint on that comparative figure.

Mr. DIXON. When I came to the FTC, sir, there were 33 trial lawyers to enforce the whole antitrust program. What was happening, it was thinning down; what money would buy you and the things Congress had assigned us to do, you could put bodies in so many places.

Mr. OSTERTAG. Yes, and 10 years ago, according to your own figures, there was a reduction in the number of employees in 2 or 3 years during the period of the early 1950's.

Mr. DIXON. As you appropriated more money the employees went down.

Mr. OSTERTAG. That is right. Today you are up to the $13 million mark, asking for an increase. You had an increase last year, did you not?

Mr. DIXON. Last year we got a decrease, sir. Since you appropriated our money finally in December I have had to cannibalize more than 27 positions and I am trying to make up $100,000 between now and July to keep from having a reduction in force.

Mr. OSTERTAG. You are asking for an increase of 27 this year.

Mr. DIXON. Twenty-seven bodies but with the million dollars I hope to be able to raise the ceiling back up and replace the people that we have had to cannibalize to meet the budget that we were allowed by the Congress.

Mr. OSTERTAG. You say "bodies" and in your statement you refer to it as "positions." I do not know what the difference is.

Mr. DIXON. They are the same thing, sir. I should call them positions.

ANNUALIZED POSITIONS

Mr. THOMAS. How many jobs do you have annualized in the 1964 and 1965 budget? In other words, if you want to put it on a full annual basis in your 1964 appropriation you would be short considerable money, would you not?

Mr. DIXON. That is correct.

Mr. THOMAS. How many are you carrying over into 1965? Instead of having 27 increased jobs, it is carried as 60 or 65 on an annual basis, is it not?

Mr. DIXON. It would be slightly under 60, sir.

I understand the allowance of the ceiling, as I was told here and in the Senate last year, there wasn't an intention to cut anybody off but to leave us where we were. We found that we had to drop back in order to make ends meet as this fiscal year finishes out. In the money we are asking for we, of course, would replace those personnel, go back up to the 1,178. If you allow us the money for the 27 new positions it will be a ceiling of 1,205, which has been set for us by the Budget Bureau and the President.

Mr. JONAS. Will the chairman yield?

Mr. THOMAS. Yes.

Mr. JONAS. I understood Mr. Dixon to say that you took a cut last year. Instead of that you had a $740,000 increase over the previous year.

Mr. DIXON. The pay raise increase, sir. This is total money paid.

Mr. JONAS. You did not have any cut. You got three-quarters of a million more than you had the previous year.

Mr. DIXON. In money you are correct, sir; in positions is what I was referring to because when Congress passed the pay raise of course they had to create money to pay it and on our total appropriation it is an increase but it was not sufficient to offset the actual costs. There have been several increases in pay during this period 1954 through 1964.

Mr. OSTERTAG. Didn't the President indicate to all agencies that they were to absorb as much as possible of the pay raise?

Mr. DIXON. This is exactly right. We did absorb part of the pay raise. This is where some of this cannibalization started taking place and then the lateness in the final determination of what money the agencies got, we all sat there and operated as frugally as we could.

PERSONNEL TURNOVER

Mr. JONAS. What is your annual turnover average?

Mr. DIXON. I have these figures here, sir. I go back to 1962, 1963, 1964 for you. I have it for 1962, appointments: In 1962 I appointed 163 attorneys, 68 law clerks, and 275 other positions. These would range from clerks and stenographers and supporting people. There is a total of 506. That year we had these separations: 67 attorneys, 8 law clerks, and 148 others, for a total of 223.

In 1963 appointments, 72 attorneys, 25 law clerks, and 189 others, for a total of 286. The separations, 57 attorneys, 6 law clerks, 166 others, for a total of 229.

Up to December 31, 1963, and 1964, I have only hired 7 attorneys, 7 law clerks, and 50 others for a total of 64. There has been, separations, 14 attorneys, no law clerks, and 83 others, a total of 97.

You will notice, Mr. Jonas, that is tending down. I think that is good because I had a feeling that in 1962 we would take two steps forward and one back with this turnover. It is expensive because when you get young, bright attorneys out of law school, put them

in our training program, assign them full responsibility, and in about 2 or 3 years they are ready to produce and then they are offered better positions on the outside. Thank God this is slowing down. Some of these young men that we have hired in the last 2 or 3 years are outstanding boys. I am very proud of them. They are meeting head to head lawyers that make a million dollars. I gave an example last year of an attorney that had a case before us that publicly said he made a million-dollar fee. The boy that beat him got $8,000. I am very proud of him.

Mr. THOMAS. Is that right?

Mr. DIXON. I gave him a raise, Mr. Chairman.

Mr. OSTERTAG. Of course your point there is well taken, but at the same time it is not exclusively with the Trade Commission.

Mr. DIXON. That is right.

Mr. OSTERTAG. It is throughout Government, particularly in many specialized fields.

COST OF PROMOTIONS

Mr. DIXON. When I say I want some money for pay raises, I am not referring to the automatic within-grade pay raises that cost us about $80,000 a year.

Mr. THOMAS. That is good money well spent.

Mr. DIXON. I agree with you. The other $60,000 is better money well spent to me because when a young man is a grade 7, 9, or 11 and he has done an outstanding job during the year, I want to move him a grade at the end of the year so he can take care of his wife and kids.

Mr. THOMAS. How many promotions do you have in your budget, not within grade, but say if he is going from a 12 to 13 or 9 to 11?

Mr. DIXON. I asked for $60,000.

Mr. THOMAS. How many will that cover?

Mr. DIXON. It will nearly take care of my situation, sir.

Mr. THOMAS. What is the number?

Mr. GLENDENING. It will take care of about 60 to 70 individuals. It costs a little over a thousand dollars a year to promote them.

Mr. THOMAS. Do they question your promotions for attorneys?

Mr. DIXON. Not attorney promotions. They look over my shoulder. I only had one problem last year when they wouldn't permit me to promote my bureau heads and chiefs and I thought I would give them quality within-grade increases. They came over and ordered me to cancel them. They said I was quite a slick guy but would have to start over again and promote them on an individual basis.

SUPERGRADES

Mr. THOMAS. What is the status of your supergrades? Did you get any additional ones out of the last go round?

Mr. DIXON. I got one, Mr. Shea, some hearing examiners and medical officers.

Mr. THOMAS. How many supergrades do you have now?

Mr. DIXON. Thirty-six, sir. I can name them for you if you want them.

Mr. THOMAS. Where is your big chart where you set it out?

Mr. GLENDENING. In the back of the book, Mr. Chairman. It is clear in the back.

Mr. THOMAS. It is the very last page in your book. It is page 138.

Mr. DIXON. If you will look at that chart, I will name them for you, sir. Here is the number.

Mr. Chairman, if you will look at that chart, I will go right down and make it easy for you, starting at the hearing examiners here. These are not charged to us.

Mr. THOMAS. We would like to take a look at the entire personnel.

Mr. DIXON. We will furnish it.

(The information supplied follows:)

NUMBER OF SUPERGRADES IN THE FEDERAL TRADE COMMISSION

Chairman's Office: 1 GS–17, assistant to the Chairman.
Office of the Executive Director:
1 GS–18, Executive Director.
1 GS–16, Program Review Officer.
Office of the General Counsel:
1 GS–18, General Counsel.
1 GS–16, Assistant General Counsel, Appeals.
1 GS–16, Assistant General Counsel, Consent Orders.
1 GS–16, Assistant General Counsel, Legislation.
Hearing Examiners:
1 GS–17, Director.
6 GS–16, hearing examiners.
Bureau of Restraint of Trade:
1 GS–17, Director.
1 GS–16, Assistant Director.
1 GS–16, Chief, Division of Mergers.
1 GS–16, Chief, Division of General Trade Restraints.
1 GS–16, Chief, Division of Discriminatory Practices.
1 GS–16, Chief, Division of Compliance.
Bureau of Deceptive Practices:
1 GS–17, Director.
1 GS–16, Assistant Director.
1 GS–16, Chief, Division of Food and Drug advertising.
1 GS–16, Chief, Division of Scientific Opinions.
3 GS–16, medical officers.
Bureau of Textiles and Furs:
1 GS–17, Director.
1 GS–16, Assistant Director.
Bureau of Field Operations: 1 GS–17, Director.
Bureau of Industry Guidance:
1 GS–17, Director.
1 GS–16, Assistant Director.
1 GS–16, Chief, Division of Advisory Opinions.
1 GS–16, Chief, Division of Trade Regulation Rules.
Bureau of Economics:
1 GS–17, Director.
1 GS–16, Assistant Director.

GS–18	2
GS–17	8
GS–16	36
Total number of supergrades in FTC	36

Mr. THOMAS. Maybe you have the information in your files and you can pass it out to us.

We would like to look from grade 11 up by bureaus.

Mr. DIXON. By bureaus and everything, grades 11 up throughout the Commission.

Mr. THOMAS. Yes.

Mr. GLENDENING. This summary by grades appears in the budget at the back of each bureau.

Mr. THOMAS. Go ahead with your statement, please.

Mr. DIXON. The Commission's proposed fiscal 1965 enforcement programs are condensed in the following:

DECEIPTIVE PRACTICES PROGRAM

One of the most important of the Commission's responsibilities is the law violation in the field of deceptive advertising that warrant a full-scale drive to keep them from making a farce out of law enforcement as well as abusing the consuming public and undermining the credibility of all advertising. At the top of the list comes a galaxy of products advertised as beneficial for the health, digestion, weight, and beauty of credulous citizens. Here the deception is achieved not by the labeling of the products advertised but by their advertising. Here, by lack of forceful action, the FTC is exhibited to the advertisers of all other products as an agency incapable of dealing even with obvious exaggerations and falsehoods.

The Commission's enforcement program planned in the fiscal 1965 budget provides for the launching of a showdown on the validity of advertised claims for consumer health protection. It will be a difficult undertaking, for this industry is not lacking in adroitness nor resources. Last year, sales of packaged medications totaled almost $2 billion and advertising of principal drugs and health aids exceeded a quarter of a billion dollars. Cosmetic and toiletry sales also totaled almost $2 billion while the advertising of the principal brands ran to more than $300 million. Other equally impressive expenditures are cited in the accompanying text, but there need be no doubt that the response to FTC probings will be fast, furious, and with all the legal competence that money can buy.

CLINICAL TESTING

The funds requested by the Bureau of Deceptive Practices will also be used to overcome present handicaps in manpower and clinical testing vital to a successful challenge of exaggerated claims for a wide variety of products. These include pain-relieving drugs of furiously competing speeds being sold at a $360 million annual rate; arthritis and rheumatism concoctions being sold to 12 million sufferers for "cure" or "quick relief;" a host of impressive claims for vegetable oils and margarine products as heart attack insurance; air filters and purifiers that will remove any germ that worries a buyer; and, of course, the nasal sprays, mouth washes, liniments, syrups, and tablets that have conquered the common cold or, at least, its unpleasant features.

Also to be given a hard look will be the advertising of dentifrices and oral hygiene products to determine how much meaningful fact underlies the various scientific and pseudoscientific tests which establish each as superior to the other. Not only the public but even the industry can't be sure where bona fide tests stop and copywriters' pencils continue.

Mr. JONAS. Will you yield?

Mr. DIXON. Yes.

Mr. JONAS. I understand the difference between your responsibility and that of the Pure Food and Drug people, but it seems to me you do overlap in your clinical testing activities. You are concerned primarily, I thought, with the advertising aspect of this problem and the Pure Food people would do the testing and make the determination as to whether the product is safe and what not. Do you consider there is any overlapping there in your clinical work?

Mr. DIXON. No, I do not, sir, because we are very careful to eliminate that possibility through our liaison arrangement as far as humanly practicable. You are correct. Although our law is broad enough to pick up labels as well as advertising——

Mr. THOMAS. That is what he asked——

Mr. DIXON (continuing). That is his question—we have by arrangement with them deferred and left to them the principal responsibility for the labeling. Now, of course, this does not include economic claims that occasionally get on the label. They are very happy and they want us to take that job over but beyond that point we pick up on foods, drugs, devices, and cosmetics. We frequently rely upon the clinical tests that they make, even when we go into our advertising field. We draw upon that, sir, wherever humanly possible if they have made any tests. Very often they will not have made a test for the labeling. You see an advertiser, sir, could be perfectly legal and meet their responsibility on the label.

Mr. JONAS. How much money is used for clinical testing?

Mr. DIXON. A very small amount, about $30,000 last year.

DIFFERENCE OF FTC–FDA JURISDICTION

Mr. OSTERTAG. Mr. Chairman, what is your prime responsibility in this field as compared with Food and Drug? Getting back to Mr. Jonas' point, it seems that the Food and Drug Administration has first responsibility in these matters of drugs and foods. They are designed, equipped and authorized to establish enforcement of means for marketing and the use of these matters.

It is a highly specialized field. It seems to me that there is a certain amount of overlapping.

While I believe that there is a relationship in the field of advertising and perhaps some other aspects of this, it is really hard to understand how one could put it together.

Mr. DIXON. I think I can explain this to you, sir.

In 1938 the Wheeler-Lea Act was passed by the Congress which added sections 12, 13, 14, 15, to the Trade Commission Act and actually bolstered the Food and Drug Administration. A debate was held on the floor of the Congress as to whether these responsibilities should all be placed in one agency. I think the Congress very wisely chose the course at that time that Food and Drug be given the responsibility for health and safety and that the Federal Trade Commission be given the responsibility for the economic features, the advertising, the selling, and the promotion of products.

All of the expertise of the Federal Trade Commission is built up in the area of health and safety. Before the cow gets out of the barn

and gets killed you try to stop it, find out what is in the product, whether it is safe and what should be on the label and what directions for use. That is their job.

Mr. JONAS. We agree with that. We are trying to find out who makes that determination.

Mr. DIXON. The Food and Drug does that, on the label and brochure. This is their job, sir.

NEED FOR CLINICAL TESTS

Mr. JONAS. Why do you have a big clinical testing operation?

Mr. DIXON. Because when we proceed against the advertising, for instance, of analgesics, we are in this area and have been chasing it for some time, in order for us to get the necessary proof, the type of scientific evidence that will stand up in a court of law, we have to go to the outside and pay for it. Very often Food and Drug must do this if they go to a court of law themselves. Now, we call upon the Food and Drug for their expertise that they have in this field and they do help us. If you talk about the $30,000 or $40,000 or $60,000 or $75,000 that we have expended, it would be minutia compared to what you are giving them to run the Bureau of Medicine and carry out their own clinical testing program.

Mr. JONAS. I know they spend more on it than you do but I am trying to get you to put in the record some excuse for you spending any money at all on that when they are equipped, have the facilities and the laboratories and the experts and the scientists available to give testimony, if you need it. I just cannot quite see why you need to be in the field of drug testing.

Mr. OSTERTAG. If a drug is something that is harmful to the health and well-being of the people, the Food and Drug Administration is responsible for determining that and they make certain it is off the market. If there is false and misleading advertising, there is where I think you come in. It seems to me that there is a bit of overlapping in determining the question of enforcing the trade and advertising aspects as compared with what really is good and what is not.

Mr. BOLAND. If the gentleman will yield, I would think the wonder is there isn't more overlapping. If they only spend $60,000 in this area I think it is rather small. As he indicated they give to the Food and Drug Administration the jurisdiction and overseeing of the labels, which they could take on themselves if they wanted it, I suppose. Actually, the amount they spend is so little.

Mr. DIXON. There are two types of drugs. There is the prescription drug; the law that Congress passed recently on prescription drug products for all practical purposes removes them from our primary responsibility. Then the so-called proprietary drugs that are sold across the counter—take aspirin; it says it has 5 grains on it, U.S.P. This is all it says. It doesn't even have to have a warning because it hasn't been considered dangerous enough to have a warning put on it, but you go out to sell those aspirin and you go out and say: "Look, if you will take aspirin it will cure arthritis." That is not the label. That is advertising for sale. That is our responsibility. How do you prove that it won't cure arthritis? How do you prove it? Not because I think it won't cure arthritis but because a competent medical doctor has to take the stand and swear to it.

Now if it is necessary for him to buffer his testimony by a clinical test we must pay him for it. That is where the costs arise.

RELATION TO FOOD AND DRUG ADMINISTRATION

Mr. OSTERTAG. Wouldn't the Food and Drug Administration be responsible for determining what it will cure and what it won't, rather than the Trade Commission? That is what I am driving at.

Mr. DIXON. This is advertising and not labeling. You are getting down into a very narrow construction of the Food and Drug Act.

Mr. OSTERTAG. You said a moment ago the label did not make such claims.

Mr. DIXON. That is right. They have no responsibility for the advertising within their law. They have none. They are beginning to proceed in some type of cases to where, if the court will go with them and say that even advertising is directions for use——

Mr. THOMAS. Mr. Chairman, I think you can clarify the position. When you need that expert medical testimony you go to the Food and Drug Administration and they furnish it to you.

They send you a bill for it and you reimburse them for it; isn't that your general practice?

Mr. DIXON. I do not think usually we have to reimburse them. We can get their testimony without paying for it.

Mr. THOMAS. Don't you usually call upon them to furnish the expert testimony?

Mr. DIXON. We usually do, because it is considered——

Mr. THOMAS. They have the people, don't they?

Mr. DIXON. I will put it another way.

Mr. THOMAS. You would rather have an outside man? For trial psychology you want a man from the public rather than a Government bureau?

Mr. DIXON. This helps, but beyond that there is a more practical problem. They say: "We need all of the talent we have for our own problems and if we do this for you we have to stop something that we are required to do." That is usually the answer. It is a very understandable answer.

Mr. JONAS. Not very understandable to me.

Mr. DIXON. I do want to make this plain. We go to the National Institutes of Health; we go to the Surgeon General; we tried the Veterans' Administration. We make use of all of this talent, sir, that we can. I might say that it is encouraging at times the way they come to our help, aid, and assistance. As I go along I will reach a point where I will show you that this is quite important.

Mr. EVINS. The labeling may be a very small and minor part. The public has already been conditioned to the purchase of the item because of the tremendous, fabulous, extensive advertising.

Mr. DIXON. That is right.

Mr. EVINS. They do not read the label. They have already read the ads.

Mr. DIXON. That is right. It is a misrepresentation. This is a very troublesome point to try to understand, the relationship between Food and Drug and Federal Trade in this general area.

The Commission has developed an expertise in this area that they do not have. They proceed by seizures. They go over to the Depart-

ment of Justice and use their talent to go in and seize things and condemn and attempt to obtain permanent injunctions following that.

Mr. JONAS. I understand that.

Mr. OSTERTAG. I, for one, would say that the Federal Trade Commission has an important role in all of this when you get down to the very basis of the Bureau of Deceptive Practices, but there is a line, it seems to me, that has to be divided, between the responsibility of the Food and Drug Administration as against yours. If it is deceptive practice and false and misleading advertising, that is one thing; but the determination of what drugs and other items contained, and whether they are good or bad, I believe belongs properly to the Food and Drug Administration.

Mr. DIXON. I think it does, sir. Congress put it in there. It has been there all the time, unless you change it. It is very clear, there is a responsibility unless Congress takes it away, and I think it should be left there, because——

Mr. JONAS. That was not my point. I was not questioning your jurisdiction. I think that is clear. I was just raising the question whether you couldn't use the same information that the Pure Food and Drug people compile in order to handle their injunction cases, their seizure cases, and the other actions that they take.

I was just trying to get you to explain to what extent you engage in clinical testing on your own and out of your own funds.

Mr. DIXON. We do use their information. They use ours. Very often we will have a case underway and they will come along and start a seizure action. We give them the information we have. This is a very close relationship.

Mr. JONAS. You only spend $30,000 on it. That is a small amount. I couldn't find any breakout under your "Deceptive practices" tab that would show how much you were spending on that. That amount is important, of course, but it is not of major significance.

Mr. OSTERTAG. For example, take your last item in this paragraph with regard to deceptive practices in which you make reference, Mr. Chairman, to tablets that have conquered the common cold. I have heard it told that there isn't any absolute cure for the common cold.

Mr. DIXON. I have heard doctors swear to it. This is true; there is no known cure today.

Mr. JONAS. You get pneumonia and they can cure pneumonia.

Mr. DIXON. They stand out in the rain and catch pneumonia.

Mr. OSTERTAG. But there are literally thousands of products on the market that perhaps afford relief for symptoms associated with the common cold. Therefore, the question is, should they be prohibited from being on the market?

Mr. DIXON. No, sir. I think they should have to adhere to truth and not deceive the public. Tell the truth.

Mr. OSTERTAG. That is it.

Mr. DIXON. That is our job.

Mr. OSTERTAG. That is your job?

Mr. DIXON. That is all it is, sir.

Mr. OSTERTAG. That is my point. I am for it.

Mr. DIXON. I am not trying to keep them off the market, sir. It is Food and Drugs responsibility to get that off the market, but mine is to get them to tell the truth.

Mr. OSTERTAG. That is exactly what I am trying to say and the point I am trying to make, as between your responsibilities and theirs.

Mr. DIXON. I think that you did a better job than I did, sir.

VITAMINS AND HEALTH FOODS

This budget also would make possible an intensification of FTC's efforts to protect consumers from fanciful claims for the health benefits of vitamin and mineral preparations, special dietary foods, and so-called health foods. More than $200 million worth of over-the-counter preparations of this type were sold last year. Significantly, the broader and more extravagant claims were made in the advertising of these products; their labeling was more circumspect.

Another and very large area of questionable advertising affecting the consumer health is directed at the nearly one-fourth of the U.S. population who is overweight.

Mr. THOMAS. May I interrupt? I have been listening to Geritol ads. It has all those vitamins in it. It contains calves' liver. Is that just sales talk? What will it cure, old age or anything like that?

Mr. DIXON. We are suing them right now. I think we will decide that pretty soon.

Mr. THOMAS. Do you have a suit against them?

Mr. DIXON. Yes, they have a lot of your money invested in this.

Mr. THOMAS. They don't have any of my money.

Mr. DIXON. It is one of the largest advertisers on TV, Geritol.

Mr. EVINS. They have ceased using the words "tired blood."

Mr. DIXON. Maybe we have made some progress. We will determine the whole case pretty soon, sir.

Mr. OSTERTAG. Has it been determined that it is absolutely worthless?

Mr. DIXON. I don't know, sir, what the determination will be.

Mr. OSTERTAG. Is that the point?

Mr. DIXON. We are off the record, now.

REDUCING DEVICES

The FTC already has underway an industrywide investigation of reducing devices, such as girdles, vibrators and exercisers, but due to shortage of manpower we have been virtually powerless to investigate the more inviting exaggerations of how to lose weight with a drug or an easy dietary plan including food supplements.

You will remember reading in the paper recently about Food and Drug's action in Richmond. Here is something that was worthless. They seized it.

Here again consumer deception and danger lurk far more in the advertising of the products than in their labeling.

CIGARETTE ADVERTISING

The consumer health area of current national concern today involves the smoking of cigarettes. The January report of the Surgeon General's Advisory Committee found, on the basis of prolonged study and evaluation of many lines of converging evidence, that

"cigarette smoking is a health hazard of sufficient importance in the United States to warrant appropriate remedial action." Protection of the consuming public from false, misleading or unfair advertising (including labeling) of products that may endanger human health or safety is a prime duty of the Commission. Therefore, the Commission has determined that the public interest requires initiation of a trade regulation rule proceeding for immediate corrective action of advertising and a public hearing is scheduled for March 16, 1964.

Although the advertising of all the foregoing products (as well as others discussed in the text) has serious implication for public health, the FTC has been able to correct only a very little of that which is false and misleading. The reason: lack of money and manpower. Indeed, there are other product areas, such as analgesics and germicides, that haven't even been touched by the FTC even though their advertising clearly invites regulatory attention.

Here is an interesting one when you get to Food and Drug and Federal Trade. In the late forties, after the Wheeler-Lea amendment was passed, the Federal Trade Commission, proceeding under section 13, went into the Federal court and sought an injunction. We got a determination by the court that a cigarette was not a drug within the meaning of that law.

I think Food and Drug about the same time attempted to proceed, and they were told it was not a drug within the meaning of their law. Therefore, it is a product. It comes under section 5 of the Federal Trade Commission Act, which Congress said we had to proceed against unfair and deceptive advertising.

Mr. EVINS. Some of us have read the press releases of the Federal Trade Commission's views following the Surgeon General's report to the effect that you proposed to have a warning placed upon the labels of the packages of all cigarette manufacturers. I suppose you were immediately deluged with opposition to this proposal. This is not an order, this is a proposal that the Commission advanced. Is this the situation?

Mr. DIXON. Mr. Evins, I might say that I read some of the views of the Commission for its proposed action, but I have not felt any pressure or any interference from any source. I think that we are standing there with our obligation to carry out our responsibility, and what we have announced here is, in my opinion, the most sensible and the fairest way to approach it, instead of one at a time, approaching the whole problem.

What we have done is, we announced the basis and purpose or reasoning for our procedure that we have announced. We have tentatively, in connection with the announcement, issued what we think are tentative rules so that when the hearings occur, all interested parties will have something to talk about, something that we can center on.

The Surgeon General's Advisory Committee states they found some direct causal connections with some very serious things that kill people, like cancer, emphysema, chronic bronchitis, and various other things. This Committee was chosen from a distinguished panel. They were submitted to the tobacco industry themselves. They approved these people, these 12 doctors. These 12 doctors that made that Committee report were unanimous. There was no dissent. They called for

remedial action. We knew that this Committee had been working because in the past various people had called upon us asking why did we not do something about the various advertising going on over the air, principally with respect to cigarettes. We said we thought the time had come that this should certainly be looked at from a competent scientific standpoint. We early suggested that someone should do something about this and then rather applauded the Surgeon General's attempt to look at it.

Mr. JONAS. You are going to have a public hearing on March 16. Is that a hearing at which all cigarette manufacturers will be heard?

Mr. DIXON. Every interested party, which certainly will include cigarette manufacturers. They will be given a full and adequate hearing.

USE OF INDUSTRY GUIDANCE DIVISION

Mr. JONAS. Are you bypassing your Industry Guidance Division?

Mr. DIXON. This is completely within our Industry Guidance Bureau because this is one of our avenues we have tailored our new procedures for.

Mr. JONAS. I thought the Commission was going to sit.

Mr. DIXON. We thought it was important enough for us to sit:

Mr. JONAS. I thought when you got a problem the first thing you did was turn your Industry Guidance people loose on it.

Mr. DIXON. The Industry Guidance Division is handling it at the staff level, but instead of a member of the staff being delegated to hear and then we review it, we are going to listen ourselves. This means at all times at least three Commissioners will be sitting when there is testimony.

Mr. JONAS. I made a speech recently in which I praised the Industry Guidance part of your activities because I thought it made a lot of sense to talk to people before you bring them up for public hearings or start proceedings, to see if you cannot have a meeting of the minds and work things out on that level before going to court.

Mr. DIXON. This is no different fundamentally from other types of hearings that we hold. The only thing different here is the Commission will be sitting.

Through our so-called guidance, we have four basic approaches: one, we do issue guides. We give them to the public. This is no enforcement program. It tells them if you do not follow the guides, we will proceed against you.

Then we have the trade practice conference procedure where usually the industry comes to us and we sit down with them and develop, in a sense, trade rules or guides. Then we have the advisory opinions which we have adopted where we will give binding advisory opinions, where practical.

In addition to that, we have this fourth method, the general trade rule procedure that we have adopted. We adopted this one from the standpoint of accomplishing two things, not only to guide but at the other end of the road we would have something that will have a bite if it is not followed. That is what we have there. We think it will save everyone's time and give all the guidance necessary.

Mr. EVINS. It seems to me this is a question of such magnitude and importance concerning the public health that the Commission would be wise to give it priority and early consideration and not let it be

dragged out through a long process like the Commission has been charged with doing on some other matters.

Mr. DIXON. Mr. Evins, I daresay had we followed the usual procedures we followed in Carter's Little Liver Pills, we would have had another case like Carter's Little Liver Pills 16 years in length.

Mr. EVINS. This is a controversial matter. I understand the tobacco industry employed its own technicians and doctors and will come forward with its own report, which will probably counter the Surgeon General's report.

Mr. DIXON. I suggest they give it to us at that time because that is the purpose of these hearings. That is the reason we have announced them, because at the end of these hearings we must have some kind of record where this Commission can make a finding of fact and a conclusion that section 5 has been violated. We must have that type of record, sir.

I think we have moved with expedition in this matter. Perhaps some of the criticism has been that we moved too expeditiously. I think it confounded somebody to think that the "Old Lady of Pennsylvania Avenue" could move with due haste on a problem. Within 1 week we announced this procedure. I tell you we were ready. We knew it was going on. I assigned a staff task force who brought all the advertising up to date. We were in my office, the Commissioners, waiting for that report. I did not know what was going to be in that report any more than you, sir, no earthly idea until it was handed to the Commission.

Mr. THOMAS. How long have people been smoking?

Mr. EVINS. The Indians were smoking before we came here.

Mr. DIXON. When I read that report, I threw my last package of cigarettes away and got these things.

Mr. THOMAS. Proceed with your statement.

FALSE AND MISLEADING ADVERTISING

Mr. DIXON. Additionally, the Commission will intensify its monitoring of advertising to detect filching of money from the consumer through the use of flagrant deception in the sale of products such as food, mineral, and vitamin preparations, household equipment and home improvements, and necessities of life of special significance to low income families and the aged. Promotional practices or misrepresentations as to the cost of credit charges which divert trade from, or otherwise injure, small businessmen and consumers will be given close scrutiny by the Commission during fiscal year 1965. The Commission's responsibility to prevent deception extends, with few exceptions, to all goods and services sold in commerce.

TELEVISION ADVERTISING

Mr. OSTERTAG. Mr. Chairman, let me ask you this, if I may. With regard to this whole question of deception and false and misleading advertising and possibly mislabeling; which medium seems to be the most potent in that regard? As of today, would you say it is television? Has television blown this whole picture of deception up more than any other medium? This is a broad question.

Mr. DIXON. I have not really thought about it, but I am quite sure that this is the newest of all mediums, and what you see seems to impress you even more than what you read or what you hear. It is a very vital and forceful means of advertising the giant productivity of America.

Mr. OSTERTAG. You people who are responsible for this must have some estimate of where your real problems are developing and which is the most serious.

Mr. DIXON. I would hate to shoot from the hip on that one, sir, because it is a pretty broad question.

Mr. OSTERTAG. As you indicate, Mr. Chairman, there might be a considerable difference in an advertisement in a newspaper as compared with something that is very vividly blown up to you in action on a television screen.

Mr. DIXON. You have your finger on something, Mr. Ostertag, that we ourselves as the five Commissioners have discussed in the not too distant past. We are trying continually to get out of this morass of everything that comes by us and kind of move back and away, to try to determine what is more in the public interest.

If the full purport of your question is understood, I think the most effective is television advertising, in my own personal opinion.

Mr. OSTERTAG. That would be mine, but I do not know.

Mr. DIXON. This may be one of the ways we will turn to in order to determine how we will use the limited resources we have. What is more in the public interest when you have a limited force? Would you go to this type advertising or this one here? Today we are across the board. We are examining newspapers, periodicals, radio scripts, television continuity, as well as watching and observing. Very often national advertisers will use all mediums and the same representation will appear much the same in nearly all mediums.

Mr. OSTERTAG. I do not want to delay or consume time in connection with this hearing, but the thought occurred to me in this connection: We were just a moment ago discussing this whole issue of smoking and cigarettes and cigarette advertising and what you plan to do in that regard. This brings to mind the fact that cigarette advertisers or tobacco companies are probably one of the most extensive advertisers in television.

Recognizing, as we must, that there is also this question of our system of television in this country as compared with, say England, of the issue as between pay TV as against our regular commercial free television. The cigarette manufacturers and many of these other producers that have been mentioned here today are the most extensive television advertisers. This situation may lend itself to the argument for the establishment of pay television as against the system of commercial television.

Mr. DIXON. Whether they pay for it or not, the advertising would not be different, in my opinion. They would still be trying to sell the product, whatever it is. I think advertising is here to stay.

Mr. OSTERTAG. I believe advertising is here to stay, but if you had a complete and absolute system of pay TV, television would not be an advertising medium.

Mr. DIXON. I have heard this discussed.

Mr. THOMAS. Repeat that again.

Mr. OSTERTAG. Off the record.
(Discussion off the record.)
Mr. THOMAS. Proceed.
Mr. DIXON. It is true that this long-delayed drive calls for additional money, but the alternative is ineffective action in this vital and explosive area of advertising affecting the health of consumers. Moreover, these are products whose advertising all but saturates the airwaves and is prominent, indeed, in the printed media. To millions of Americans, this advertising creates the character of all advertising. If it offends credibility, then other advertising also becomes suspect. Thus, for the FTC to be ineffective in regulating such widely disseminated advertising of products so important to consumers has far reaching implications. And not the least is that the Nation's 12 billion advertising dollars are substantially devaluated in their purpose to stimulate business. Certainly real economy dictates spending the small amount the FTC asks to alleviate this situation.

ENFORCEMENT OF THE WOOL, FUR, AND TEXTILE ACTS

The only substantial increase for additional manpower and funds requested by the Commission in 1965 is for additional enforcement of the Wool, Fur, and Textile Acts.
The Wool, Fur, and Textile Acts each require affirmative labeling disclosures. The Fur Act further requires affirmative invoicing, while disclosures made in the advertising under the Fur and Textile Acts are regulated. The Flammable Fabrics Act prohibits the introduction or movement in interstate commerce of dangerously flammable wearing apparel and fabrics intended for use therein.
Unlike other statutes administered by the Commission, compliance with the terms of these acts must be continuously policed to assure that members of industry are living up to their requirements and consumers are afforded the protection intended by Congress.
Mr. EVINS. Is a baby blanket wearing apparel, or how do you classify that?
Mr. DIXON. We have ready a proposed press release. We finally ruled on the infant baby blanket question. The majority of the Commission held that this is not within the Flammable Fabrics Act and if anything should be done about it, it should more properly be addressed by Congress toward amending the act itself. That basically is what we have done as a commission. That was done upon a very careful review of the legislative history of the Flammable Fabrics Act, as such.
Mr. EVINS. Is the Commission making any legislative recommendations for amendments in this area?
Mr. DIXON. We have not as yet, sir. I do not know whether we will or not. The task of administering the Wool, Textile, and Fur Acts is reflected by the tremendous size of the textile industry. Over 100 different industries are engaged in the manufacture of textile products subject to the provisions of these statutes. Each year the sales of textile products covered by the acts run into billions of dollars. Next to food and shelter, textile products including wearing apparel and household furnishings, constitute the most important segment of our national economy. Additionally approximately 175,000 distributors of fur products are subject to the Fur Act.

This country is importing tremendous quantities of wool and non-wool fabrics and garments. The foreign mills and manufacturers are not always cognizant of the labeling and invoicing requirements under our Textile Act, and as a result a constant check must be made of these products. Since foreign manufacturers are outside the jurisdiction of the Federal Trade Commission, we must work closely with the Bureau of Customs in policing foreign imports. As a result of this cooperation the entries of many misbranded items have been stopped and corrected before the merchandise entered the American market.

For the past year simulated fur fabrics made from natural and man-made fibers have been extremely popular. The advertising and labeling of garments made from these fabrics has presented a problem as some manufacturers have concocted trade names and descriptions for their products that are misleading to the public.

FUR AND TEXTILE INSPECTION

It should be noted that the day-to-day inspection of these products is of real concern to consumers, particularly women, for furs can be skillfully dyed or otherwise treated to appear to be of better quality or from more desirable animals than is the fact. Therefore, truthful labeling assumes a far greater importance than fur products whose quality is more easily appraised. The same situation obtains for textiles where the percentages of new and reused wool can, without proper labeling, trick even the sophisticated buyer, and, of course, the new synthetic fibers would have anybody guessing, were it not for proper policing of the labels.

There are only 37 investigators to do this trenmedous inspection job throughout the entire United States. Some of these investigators are located in field offices of the Commission, but others are located in field stations, in some of which only one or two men are assigned. Some of these field stations have responsibilities for regional inspections covering several States. The field investigation staff, in addition to carrying on routine inspections and industry counseling in all phases of manufacturing, processing and distribution of textile and fur production, also performs most of the investigations in formal cases leading to complaints under the direction of the Bureau of Field Operations.

RELATIONSHIP WITH STATE AUTHORITIES

Mr. OSTERTAG. I have one point with regard to labeling. What is the situation and your relationship between your enforcement and policing of this whole field you have just described, and that of the several States? They have a number of labeling laws and requirements. How is that coordinated?

Mr. DIXON. I know of no conflict between our statutes and any State statute.

Mr. STRINGER. There are no State statutes in these areas. There is a Fur Labeling Act in Wisconsin and a Wool Labeling Act in Wyoming, but other than that there are no State laws on the subject.

Mr. OSTERTAG. Does the State of New York have a labeling law on any of these?

Mr. STRINGER. No, sir.

Mr. DIXON. They have a general law that Mr. Lefkowitz has done much with. He should be congratulated, in my opinion. This law is kind of patterned after the general Federal Trade Commission law that is a broad and breathtaking type of approach to deception, as such, and unfair practices.

Mr. OSTERTAG. As Commissioner Reilly knows, back in the days when some of us served in the State governments and particularly in the field of interstate relations or cooperation, one of our jobs happened to be that of bringing about some uniformity with regard to these laws and possibly bringing them in line with, let us say, Federal requirements or Federal statutes. I was wondering if you had any problems between State jurisdiction and State laws and enforcement and your problem?

Mr. DIXON. The only problem is I see too little State enforcement in this area. I think one of the things you will see generally developed in the next few years is more of an understandable relationship with these various State attorneys general and their various State officials that are responsible. I think we must do more and more of this so we can get some help.

Mr. OSTERTAG. Thank you.

Mr. DIXON. Despite continuing and earnest endeavor to carry on as best it can, the Division's investigators are able to inspect only a mere sampling of the hundreds of thousands of concerns engaged in some phase of the textile and fur industry. This includes the fiber producers, spinners, processors of natural and manufactured fibers, mills, manufacturers, importers, wholesalers, and retailers involved in production and distribution.

During fiscal year 1963 only 14,682 inspections could be made by this small staff. While these inspections, by sampling methods (except furs), covered some 50 million products, more than 4 million labeling or other deficiencies were found which resulted in 101 formal complaints, 113 cease-and-desist orders, and 1,400 assurances of discontinuance.

We do tremendous good here as these men go along, straightening things out at that level. This is our hope. We usually only go to the formal complaint when we have a pretty bad record of experience with the party that just will not pay any attention to it.

To insure that the public shall receive the protection intended by Congress, it is obviously necessary to police the manufacture and distribution of products subject to these laws. Without question, 100 percent inspection of all the concerns involved in all these industries in the textile and fur field would be impossible. Therefore, it is necessary that the policing the staff is physically able to do shall be carried on in strategic areas and in strategic industries.

It is obvious that the staff available for enforcement of these statutes is wholly inadequate and the Commission is requesting 25 additional attorneys and investigators which will require $127,000 and $35,000 for travel.

INDUSTRY GUIDANCE PROGRAM

The guidance of industry by voluntary means as an alternative to costly adversary actions whenever possible is being given greater emphasis than at any time in the FTC's 49-year history. Whether

the voluntary procedure involves a request for guidance from an individual firm or whether the industrywide problem can be lessened by the issuance of rules or guides, far more compliance with the law can be achieved with the same amount of enforcement money. But there can be no question that the guidance program places a very considerable burden on the Commission and its staff. Even though it is cheaper to avert a violation than to correct it, the work involved in averting it calls for competent manpower.

Consider first the FTC's program for the issuance of advisory opinions, a program which has been in effect only 19 months. Requests for opinions totaled 326. The Commission disposed of 71 by formal action. The number of requests for advisory opinions during the fourth quarter of calendar year 1963 increased by almost 70 percent over the preceding quarter. The widespread dissemination of information on our advisory services, as indicated by requests for 45,000 copies of the Commission's booklet describing these services, will result in further substantial increases in business requests for advisory opinions from the Commission.

The opinions sought were not on simple questions. Many dealt with such complex matters as whether proposed mergers would violate the law, the legality of cooperative advertising plans, and whether functional, quantity, and cumulative discount plans would be legal.

There can be no doubt that as this advisory opinion service becomes more widely known, particularly to small businessmen, the volume of work will rise sharply. (The first to appreciate it were the big law firms and their clients, but efforts are underway to spread the word to businessmen generally.) Also plans are underway for issuing digest of previously rendered opinions given to individual applicants with, of course, due regard for protecting trade secrets.

A significant increase in demand is being made for the issuance of trade regulation rules, a companion innovation looking to industry's guidance. They are proving to be of great interest to businessmen inasmuch as they spell out clearly what the Commission considers the requirements of the law to be as it relates to a particular subject. Their preparation involves extensive study and public hearings for the FTC will rely upon them in adverary actions. A year ago the staff assigned to this work had 8 proceedings pending; today 20, and the staff, still the same size, is, of course, overloaded. Here again the inevitability of delay will sabotage the program unless the staff is enlarged.

In other major areas of FTC's industry guidance work, namely the industry guides and trade practice conference programs, one need is the very obvious one of protecting the investment of time, money, and business confidence in the rules and guides that already have been issued, and another need is to tackle industry problems by these broad scale voluntary methods whenever possible as an alternative to the more costly litigation method.

There are now 168 industries under rules, with 4 more to be issued by this fiscal year's end. The four are for the fresh fruit and vegetable, the gypsum, the hard surface floor covering, and the braided rug industries. All 172 rules, of course, will have to be administered and kept up to date. The same is true of the 10 guides

now outstanding, and the 2 more for mail-order insurance and for room air conditioners, to be added this year. Altogether, 1,100 compliance matters had to be handled during fiscal 1963.

Plainly the workload here is cumulative; for, the more rules and guides that are in effect, the heavier becomes the task of administering them.

COMPLIANCE PROGRAM

Although not included with industry guidance work, a far-reaching decision which serves this purpose was made last August 1 by the Commission. This was the decision to offer advice to those bound by FTC orders on whether any course of action they propose to take will violate the particular cease-and-desist order to which they are subject. The Commission was aware that this amendment of its rules of practice might well prompt a flood of requests for such advice from respondent firms who have no appetite for any future litigation with the FTC. Yet, elemental fairness demanded that these respondents be given opportunity to find out by some means other than facing a penalty suit whether (1) they have succeeded in complying with FTC's order, or (2) whether a future course of action would contravene it. It is, of course, too early to determine exactly how much additional work for the staff this rule change will generate, but that it will be substantial there can be no doubt whatever. Particularly difficult will be the reviews of compliance reports filed in connection with antimonopoly orders, for many of these would require analyses of new pricing policies, cost data, competitive effects, and other complex matters. The task would fall most heavily on the compliance divisions, the Division of Accounting and the field offices.

The entire subject of compliance with outstanding orders has been given the most careful consideration in preparing our 1965 operating programs. The time has come to pull it out of the back room and face up to the fact that it has been neglected, most particularly in the field of antitrust.

The FTC has issued about 1,250 restraint-of-trade orders, many involving multiple respondents and affecting significant markets and segments of the national economy; yet, the Commission has no way of knowing with any degree of certainty whether they are being obeyed. No systematic check of compliance with these orders is being made.

Simply to handle current cases, the Compliance Division of the Bureau of Restraint of Trade already is overloaded to the extent that each attorney has responsibility for 30 current cases at the same time. These are active cases on which action within 60 days after their issuance is legally mandatory. And this was the situation before the previously mentioned rule change entitling respondents to opinions on whether their revised or proposed practices comply with cease-and-desist orders against them. Nevertheless, the Commission is firmly convinced that a thorough compliance check of its outstanding orders must be undertaken, for the very good reason that an unenforced order is worse than none. The cost will be considerable. Of course, this badly needed compliance check might have been meat-axed out of the budget under the guise of economy. But real econmy demands that the millions of dollars spent in obtaining these orders be not wasted.

In the field of deceptive practices, the problem of ascertaining compliance with old orders is less serious, for the reason that both the public and business competitors are not slow to detect and report when a respondent is violating an order against him. (Violations of restraint of trade orders on the other hand are far harder to detect.) Even so, there must be vigilance in policing compliance with deceptive practice orders or they, too, become nullified. The number of deceptive practice orders requiring surveillance has increased every year, but there has been no increase in the professional staff for the past 3 years, with the result that nine attorneys are now weighed down by a workload averaging 63 active cases each. Obviously they cannot, without the additional manpower, be expected to carry the new compliance program with its far heavier responsibilities.

Fortunately for the FTC's program to revitalize its outstanding orders is that another difficult and costly responsibility in the field of compliance is drawing to a close. This is the Justice Department's mandatory request in early 1961 that the FTC investigate compliance with 56 of its older antimonopoly orders. These were tough cases to investigate; most of them involved multiple corporations, including some of the biggest. To handle this extra work, the FTC was given an extra appropriation of $915,000 in 1962, whereupon commenced the difficult task of hiring and training new attorneys and integrating them into the staff so that competent attorneys could be assigned to the Justice Department cases. (Progress in the handling of these is described in the text of this budget request.) Attorneys who gained experience on the Justice Department assignment can provide a strong nucleus for the FTC's own and much more extensive compliance check.

As a matter of plain fact, this badly needed compliance check can not be undertaken without the $15,000 that has provided the additional staff for the Justice Department work. This money—and the staff strength and expertise in antitrust investigations that it has bought (currently more than a $2 million investment of Government funds)—must be retained or FTC's own outstanding orders must continue to be neglected and, alas, many of them ignored. A planned reassignment of manpower to the most pressing Federal Trade Commission compliance matters will be instituted as fast as the Attorney General's work is completed.

It might well be pointed out here that the problem of integrating young lawyers into FTC's staff is no small one, and to retain them under an overload of work—which too often involves night and weekend work without pay—when those who reveal ability can make far more money under less arduous conditions in private industry presents an even graver problem. Time and again, the FTC is forced by lack of manpower to pit fledgling attorneys against many times their number of experienced and highly paid defendants' lawyers in the trial of cases. Thus, it should be obvious that there is no economy in so overloading an FTC attorney that his enthusiasm for public service wears too thin, for if he reveals ability, his Government salary will be no inducement for him to stay. Indeed, real economy dictates the need to advance competent young attorneys as fast as they can meet greater responsibilities. A too-tight budget could be costly indeed to FTC's manpower, as well as to public service.

RESTRAINT OF TRADE WORKLOAD

Badly hit by the loss of experienced manpower due to a rising overload of work and understaffing is FTC's Bureau of Restraint of Trade. Here uncompensated overtime for its attorneys is the rule not the exception. Moreover, during this fiscal year and in fiscal year 1965, the situation can only worsen, for no additional manpower can be made available.

The unvarnished fact is that the Bureau of Restraint of Trade can only attempt to keep the FTC from falling hopelessly behind in its effort to keep small firms from being driven out of business by the illegal use of buying power by their big competitors. Indeed, regardless of the financial strength of those who employ unfair and discriminatory methods, the unfavored suffer just as much.

The ultimate loser, of course, is the consumer, for as business competition dwindles and disappears in one area after another, he awakens too late to the meaning of those uninteresting words, "trade restraints" and "antimonopoly." At that point, all he can do is to fume at the new higher prices he must pay for life's necessities and sadly remember the old price that was set by free and fair competition.

The number of formal antimonopoly complaints issued by the Commission has increased from 36 in fiscal 1955 to 230 in fiscal 1963 or fivefold, and the number of cease and desist orders increased nearly ninefold from 30 in fiscal 1955 to 261 in fiscal 1963. These substantial increases in Commission antimonopoly actions relate to Commission policy of moving against violations of law on an industrywide basis, after investigation uncovers that large numbers of industry members use the same illegal trade practices.

In enforcing section 2(a) of the Clayton Act as amended by the Robinson-Patman Act, prohibiting the giving of discriminatory prices to favored buyers (usually the biggest) the investigative and litigation workload amounted to 34 cases per attorney or more than 3 times the number he could be expected to handle efficiently. In addition, the 40 available attorneys were called upon to process 4,500 correspondence matters relating to applications for complaint and pending cases.

Such is the workload of the Bureau's Division of Discriminatory Practices whose vitally important job is to enforce section 2 of the Clayton Act as amended by the Robinson-Patman Act and its prohibitions against price and other forms of discrimination that favor big buyers at the expense of their little competitors. The Division also has responsibility for bringing cases against the inducement of these discriminations, as well as cases involving exclusive dealing.

Complicating the work of this Division—but necessarily in the interest of effective law enforcement—is the Commission's policy of attacking violations wherever feasible on an industrywide basis, rather than following the former "squirrel gun" approach that could pick off only scattered violators.

Just 16 attorneys, representing 40 percent of the Division's available trial staff, are straining to shoulder the staggering job of industrywide enforcement actions against (1) processors and retail chainstore distributors of fluid milk, (2) manufacturers of wearing apparel, (3) department stores and grocery chainstores, and (4) automotive replacement parts.

The Bureau of Restraint of Trade is currently analyzing the results of its milk price war investigations, based on small business complaints and investigational hearings on charges that milk was used as a loss leader in various sections of the grocery chains, and that the price of milk was cut temporarily to drive out the competition of the small milk producer-distributor. The Bureau was also active in enforcement of section 7 merger cases in the milk industry.

The Bureau has several merger and price discrimination investigations underway in the cement industry. The industrywide cement program launched by the Bureau in fiscal 1963 has resulted in formal complaints against four major companies. This industry program serves as a potent deterrent in halting substantial mergers in the concentrated cement industry, and in slowing down illegal merger invasions by cement producers into the small business ready-mixed concrete industry which uses cement.

There are also some 10 complaints at various stages of litigation involving mainly pricing practices of major oil companies. The Bureau is also conducting several other investigations into gasoline prices, and also into competitive practices in the apparel industry. The Commission has obtained orders against suppliers of men's, women's and children's wearing apparel, and in fiscal 1965 the Bureau of Restraint of Trade will continue its investigations into large chain department stores and other large apparel buyers to find out the extent of their participation in inducement of discriminatory prices, allowances, and/or services.

BUREAU OF ECONOMICS

The Bureau of Economics contributes an increasingly important role in the Commission's law-enforcement program. Economists in the Division of Economic Evidence during fiscal 1963 gave economic assistance on 70 investigations and 30 formal cases, mainly mergers. This Division screened more than 1,200 mergers, prepared analyses of the economic effects of significant mergers on competition, and compiled quarterly and annual merger statistics. Economists also supplied assistance on compliance cases; more demands in this area are likely where decisions under amended section 7 of the Clayton Act require divestiture of acquisitions, often an examination of the merger record and scope of business operations of the proposed corporate purchaser requires an economic analysis of the markets and small business competitors affected by the divestiture. In addition, the Division of Economic Evidence supports the Commission's enforcement program in analyses of significant alleged or suspected false claims based on statistical sampling, in assisting the advisory opinions' staff on complex economic issues usually involved in proposed mergers, and in planning and in conducting section 6 surveys for the collection of data relating to the investigation and trial of merger cases.

For half a century the economic reporting functions of the Federal Trade Commission have constituted one of the Nation's most important instruments of antimonopoly action. The legislative history of our organic act establishes congressional intent that reporting functions should be extensively used as one of the principal means of curbing monopoly power. The Bureau of Economics has underway a study of the effects of Commission merger cases upon competition and

concentration in the dairy industry, and it is examining the problem of vertical integration in the rubber tire industry.

The Bureau is also investigating and analyzing competitive conditions in the manufacture and sale of polyethylene-polypropylene resins and products. During fiscal 1965 the Bureau will complete an economic report on this complex and expanding part of the plastics industry. Finally, in anticipation of increasing national concern with oversea trade and competition posed by the Common Market, the Bureau of Economics is making a study and report on export trade associations to enable the Commission to better assess its responsibilities under the Webb-Pomerene (Export Trade) Act of 1918.

DECEPTIVE PRICING GUIDES

I am very happy about one thing. We issued some guides under our new procedure, as we say, against deceptive pricing. I am very pleased at the response from industry as we met with NAM and the chamber of commerce. Here they are applauding us to high heaven. The Association of National Advertisers just issued a statement on these guides that is very laudatory. This morning from the chamber of commerce, they stated they have reprinted 10,000 of these guides and are sending them out themselves to the business people and are highly complimentary of what we did. We sat as a body 3 days and listened to the consumer, the businessman, and everyone on this problem before we issued these guides.

ELECTRICAL SUPPLY PRICE FIXING

Mr. THOMAS. Mr. Chairman, a situation recently has come to light that maybe the Federal Trade Commission had a part in. It was brought to light by the Justice Department that certain segments of the electrical supply busines had been practicing conspiracy to maintain a certain level of prices in certain of their products. Several of the big companies in the country entered a plea of nolo contendere. Just what part did the Justice Department play in that?

Mr. DIXON. They played practically the entire part in that electrical equipment industry that I think you are talking about.

Mr. THOMAS. Certainly a conspiracy there to uphold the price of a product is within your jurisdiction.

Mr. DIXON. This is correct, sir.

Mr. THOMAS. The only information the public had on it was given by the Department of Justice. What part did the Federal Trade Commission play?

Mr. DIXON. None, sir.

Mr. THOMAS. You had no part in it?

Mr. DIXON. Not this one. These hearings started with a hearing which Senator Kefauver held on Capitol Hill.

Mr. THOMAS. In that case it was brought to light that it cost more money than all the salts, pills, oils, and Serutan put together and multiplied by a hundred. Why chase rabbits when you have these lions?

Mr. DIXON. I will lay one beside it. We just finished this one. I will not debate its merits. We rendered our final decision on the American Cyanamid drug case on the product tetracyclin, probably the largest single component in the sale of all so-called miracle drugs in America. We found a law violation. Part of our order will require, if it is held up, that this be licensed to anyone.

Mr. THOMAS. What is that drug to cure, fallen arches, flat feet, or what?

Mr. DIXON. This is the true miracle drug.

Mr. THOMAS. What is the name?

Mr. DIXON. Tetracyclin, the broad spectrum. There are many names.

Mr. THOMAS. It is one particular pill?

Mr. DIXON. Tetracyclin is a drug that has been grown from a mold, an antibiotic. It can be given to you intravenously, it can be taken in capsule or pill.

Mr. THOMAS. I thought I had taken all of them. I overlooked that one.

Mr. DIXON. You have probably taken tetracyclin. It is the generic name. There are five specific sellers.

Mr. THOMAS. What are the five specifics? Where do they come from?

Mr. DIXON. The generic term is tetracyclin.

Mr. THOMAS. What are the five drugs, trade names, aureomycin?

Mr. DIXON. All the mycin drugs. Pfizer has one, American Cyanamid——

Mr. THOMAS. What did the Commission say?

Mr. DIXON. The Commission found that this patent was obtained by fraud and deception, and as part of our remedy we found that they had maintained some prices, and we have issued an order that would prohibit that, but we have gone beyond that.

Mr. THOMAS. What about the value of the drug? That is the thing the public is interested in. They do not much care whether they got it by fraud or what, if the drug is good. What did you hold about the drug?

Mr. DIXON. We required that anyone who wants to manufacture and sell this product, if he will apply to these people, they will have to give him a license. Of course, this party will have to pay a royalty, the same royalty they would charge each other.

Mr. THOMAS. Are you not getting into the field of copyrights and patents rather than fraud as to the value of the drug, which is your job? I want to get my money back. I used to take a lot of those pills. What did you hold on that, that it is no good?

Mr. DIXON. I do not want to go too far here because the court has to rule.

Mr. THOMAS. Off the record.

(Discussion off the record.)

INDUSTRY GUIDANCE GROUP

Mr. DIXON. I think we are making progress in the industry guidance group. Guidance work has progressed. We have outstanding 172 such industry rules now. There are guides.

Mr. THOMAS. We have put limitations on money which tell you not to curtail activities in restraint of trade. This year you ask for a three-man decrease. Time and time again we put it in the language and in the report. When you say you have been short handed, you have to assume some of the responsibility yourself.

Mr. DIXON. I start at the Budget Bureau, I tell them my problem and ask for enough money to do it with. They make the recommendation. I come here to you for the third consecutive year with no recommendation for any increase in this work. I am telling you still my problem. My problem is mounting, but I have no recommendation.

Mr. THOMAS. We are going to listen to you with great interest. Go ahead.

COMPLIANCE WITH COMMISSION ORDERS

Mr. DIXON. I think part of this work, of course, as we go along is this compliance work that we want to get into. We have, of course, now, in the restraint of trade field probably 2,000 or so orders. Some of our orders, in my opinion, are more important or certainly equally important to those sent over to us by the Department of Justice. We have not had the manpower or the force to even look into it. In addition to that, as we increase our production with the new people you have given us, we are turning out more formal orders. They either come by consent or by litigation.

When you come to the end of the case, by statute within 60 days we must have compliance with that order. So these must be dealt with. We do not have the force to go back to do anything about our own orders.

As we are phasing out the Justice work, I went to the Bureau of the Budget and I come here with their approval in saying we want to take this talent we have developed here and as they phase out move straight into checking our work on a continuing basis, plus one other thing. We recently have extended our advisory opinion service to the businessman in this respect. To everyone that we have under an outstanding cease-and-desist order, we have said that if there is any question in their minds as to whether what they propose to do might violate the law, or "if you want to know whether what you are doing is in compliance, ask us and we will tell you 'Yes' or 'No'." This keeps a man from running afoul of $5,000 per day for each violation. With that invitation, they are accepting it. I think the businessman is entitled to this service by his Government.

Mr. EVINS. Has it not always been the traditional concept of the Bureau and the Commission that the competitors in the industry are going to keep on their toes to see whether or not their competitor is violating an order once it has been issued by the Commission? These are your best policemen, your best informers. They are checking them.

Mr. DIXON. I agree with you, but let us take an order that said to you, as an individual, you have been found in violation of section 2(b) of the Clayton Act of granting, on an unequal basis, promotional allowances to competing customers of yours. You have this order.

It is against you. It is running. You want to know whether what you propose to do, a new plan, whether it will violate that order. Your competitor might not know whether it violates it or not, he might not even know about it.

If you wanted to be double-barreled sure, you can come to the Federal Trade Commission and get a "Yes" or "No," and you are home free. I say to you this is something that the businessman should have had a long time ago.

Mr. EVINS. You have amended your rules to provide for that?

Mr. DIXON. We have, sir. This is what I want this talent to do. I tell you they are coming in droves. The businessman is applauding us for it. I just hope we do not get inundated. I think they are entitled to it.

Mr. EVINS. Can you not assign some people to sift through these 2,000 orders in restraint of trade in order to find out how many are out of business, how many passed the statute of limitations, and get it down to a limited and workable number?

Mr. DIXON. There is no statute of limitations on us. You are correct, sir; we can and we will do it, but what I am saying here is that the only thing different in the Restraint of Trade Bureau's problem that we were not having here before is that I want to move these people right straight on into this phase of the work.

Mr. EVINS. I think you did an important job. I was all for you with respect to the compliance orders. Now you come up with a proposition of checking your own orders. I thought the Commission had been checking on its own orders all along.

Mr. DIXON. You have been misinformed. If anybody has been telling you we have been doing it, they have been misinforming you because we have not been doing it. There is nobody down there to do it with. That is all there is to it.

Mr. EVINS. I looked through your budget here and I saw this picture. Go ahead.

Mr. DIXON. I say this to you: that we still have about 13 of these Justice things to finish and probably there will be three or four hanging over into the next fiscal year. But we did this work. We had to spread this through the whole organization because it comes through the whole organization, a lot of work. But I beg of this committee to be understanding on this problem because if you say to this Federal Trade Commission, "All right, we gave you $900,000 to do this job with, you are through, we are going to take it away from you"; if you were to do that, I do not know how I could get along down there.

What we have done is this. I told the Bureau of the Budget this. I said to them, well, if we lose this amount of money, I ask you to give me the same amount of money back. Any way you want to do it, I want to put it out in the open so the Appropriations Committee will look at this. We are destitute for it, we need it, we have the trained personnel, I do not want to lose them.

Mr. JONAS. You told that same story to the Bureau of the Budget, yet they cut you.

Mr. DIXON. They did not do that to me on this. They went along.

REDUCTION BY THE BUREAU OF THE BUDGET

Mr. JONAS. You asked for more money than they approved this year.

Mr. DIXON. That is right.

Mr. JONAS. How much did they cut you?

Mr. DIXON. I asked them for a total of $15,178,000.

Mr. JONAS. They cut you $3 million.

Mr. DIXON. They gave me $1 million, which puts us up to $13,270,000.

Mr. JONAS. Did you tell them you could not operate on less than $15 million?

Mr. DIXON. I told them I wanted somebody to take responsibility. I said I want to tell you my problem and what we need to do it with. I described all the things we needed and the estimate we thought would conservatively put us in business. They said, we will go a million. That is what they did.

Of course, at this time the President came in with his budget proposal, and when this came through, I said, we will do our share and do the best we can within this limitation. I fully am in accord with it. I am not asking for more than the million granted.

Mr. JONAS. You will do the same good, expert job, whatever they give you.

Mr. DIXON. We will do our best. That is the best we can do.

Mr. JONAS. That is all anybody can do.

ECONOMIC PROGRAM

Mr. DIXON. Our Bureau of Economics program is instrumental in our merger work. A good deal of power and strength we have there is in development of economic evidence to consider mergers. Also there are some studies going on looking forward to some economic reports. We are now in the polyethylene film industry investigation.

Mr. BOLAND. How many studies are going on with respect to what industries by the Bureau of Economics?

Mr. DIXON. It has underway a study of——

Mr. BOLAND. How many employees?

Mr. DIXON. Allocated 126; no increase allowed here.

Mr. MUELLER. 112 positions at the present time. The 126 mentioned includes the positions which we were allocated last year, but because of the budget cost for salary increases throughout the Commission we only actually have funds at the present time for 112. Of that, we have 37 in the Division of Financial Statistics, which has a continuing program, together with SEC, which provides quarterly profit information used by the Federal Reserve, the Council of Economic Advisers, other Government agencies and business organizations.

We have in the Division of Economic Reports 13 professional persons and a supporting group of clerical and statistical personnel. The remainder of the employees are in the Division of Economic Evidence.

Mr. THOMAS. Doctor, who wrote that questionnaire?

Mr. MUELLER. This was prepared in our Division of Economic Reports in consultation with the Bureau of the Budget.

Mr. THOMAS. I want you to tell me what it means. I have never seen anything like it.

Mr. BOLAND. How did you happen to pick out this industry? How do you pick out particular industries for economic surveys?

Mr. MUELLER. The Federal Trade Commission has been interested in the polyethylene industry since at least 1957.

Mr. BOLAND. Why?

Mr. MUELLER. We issued a complaint against Union Carbide for making one of the most important acquisitions, challenged by the Commission, the Visking Co. Subsequent to the issuance of this complaint, this case was tried before the Commission. In 1962 the Commission rendered its decision, finding this acquisition in violation of Section 7 of the Clayton Act.

At that time the Federal Trade Commission had three formal and seven informal investigations going on in this industry, dealing primarily with additional mergers which were transforming it at that time. The Commission decided that before it would go ahead and issue additional complaints or make additional investigations, that it would direct the Bureau of Economics to conduct a study of this industry to insure that in making the public policy decision as to whether to investigate a particular company or pursue a particular type of investigation, it would have a better understanding of the whole economics and dynamics of this industry. The industry itself is the leading segment of the plastics industry.

Mr. BOLAND. What is?

Mr. MUELLER. The polyethylene-polypropylene segment.

Mr. BOLAND. Is it the feeling of the Commission that what they are trying to do is restrict competition in this field? Do you know how many companies actually manufacture polyethylene and how many companies actually manufacture polypropylene? How many companies are engaged in the manufacture of these products?

Mr. MUELLER. For conventional polyethylene the number is 10, I believe.

Mr. BOLAND. Would you say this is competitive if 10 companies are manufacturing this product? Also let me ask: Is there an overabundance of supply of this particular product in the United States? Is there some marketing difficulty being experienced by these companies who manufacture this product?

Mr. MUELLER. There are at least two potential problems here. One is there are, as I said, about 10 companies producing conventional polyethylene film which is at the present time a fairly competitively structured and behaving industry.

Mr. BOLAND. Why do you have to investigate those that are fairly competitive?

Mr. MUELLER. There are new developments here. It is somewhat similar to what happened in antibiotics. The reason polyethylene film is a competitive industry today is that in 1952 the Justice Depart-

ment signed a consent decree with Du Pont and Imperial Chemical Industries requiring compulsory licensing of the other American companies. Dow and a number of other large chemical companies entered. As a result, prices declined over the succeeding years.

There have been important technological developments since then in so-called high density polyethylene resin which is a superior resin, and in polypropylene resin.

Mr. BOLAND. What is it used for?

Mr. MUELLER. It is one of the most widely used and diversified types of plastics; for films, wrapping materials, coating paper cartons, molded plastic articles, and so forth.

The latest development is polypropylene plastic, and in both the polyethylene resin and polypropylene resin you have this kind of industry structure, which is not too uncommon in American industry—we at least hear of a good many complaints that——

RESTRAINING EFFECT ON INDUSTRY

Mr. THOMAS. If you will yield, Mr. Boland; you have a young industry here, do you not?

Mr. MUELLER. That is right.

Mr. THOMAS. These are the organic chemists. They keep on developing and changing and coming forward with something new. Why do you not turn them loose and see what happens? Every year they come up with something a little different, do they not, something advantageous to John Public? Are not your actions in the final analysis putting a brake on their activity, on their inventive genius, so to speak? This is a chemical product, a result of what these organic chemists come up with, is it not?

Mr. MUELLER. Yes, sir.

Mr. THOMAS. What is your feeling?

Mr. MUELLER. As to whether we are putting a brake on?

Mr. THOMAS. Yes.

Mr. MUELLER. We certainly are not putting a brake on competition in this industry. The past legal actions of the Justice Department and the Commission have contributed to competition.

Mr. THOMAS. Since that action have you not had a lot of inventions and improvements in the industry? They are growing by leaps and bounds. They come up with improvements every year, too, do they not?

Mr. MUELLER. Potentially there are some very serious bottlenecks to competition. One again is at the patent level. There is complete uncertainty in this area.

Mr. THOMAS. Can you not rely upon the patent lawyers to straighten that out? You know the patent lawyers like business.

Mr. MUELLER. The Commission found that in the case of antibiotics, patent laws were not a sufficient protection to competition.

The other side of the coin is the kind of dual distribution system that exists here. At the present time you do have a small handful of companies. At the film level you have a fairly large number, something on the order of 60 to 70. We have seen develop here a vertically integrated structure. Again, we do not think anything is necessarily wrong with this.

Mr. THOMAS. What is the basis of your complaint? Is the price out of line? Certainly, the industry has done a remarkable job in improving the product.

QUESTIONNAIRE TO POLYETHYLENE INDUSTRY

Mr. BOLAND. Polyethylene is in oversupply and they are having a very difficult job marketing it.

Mr. DIXON. May I say this. There may not be a problem. The only thing we are doing is trying to get basic information so we will understand if there is.

Mr. BOLAND. If there is no problem, I do not think you have any business at all sending the kind of questionnaire you have sent to these companies. I take it that the Federal Trade Commission is engaged in the problem of taking care of those cases where there are problems, where there are violations of the law, where there is deceptive advertising and that sort of thing; but when you start to harass business, as you have in this instance, this is a different matter. I think Congress has the right to make an inquiry into just exactly why you do it here.

I am reading from the December 3, 1963, statement of President Johnson. I quote:

> Much too much of our people's time and talent and energies are being absorbed by the demands of Government when it should be dedicated to greater and better service. A progressive society finds oppressive, distracting, irritating, and ultimately intolerable the heavy hand of complacent bureaucratic regulation.

I think that is what you are doing here. To buttress my statement I point to this questionnaire which you sent. It is not an easy matter to fill out a questionnaire like this. This is a very difficult job.

Mr. THOMAS. Read section 5.

Mr. BOLAND. One particular question they object to is question 5, which reads:

> For the period January 1, 1959, to December 31, 1963, furnish a copy of all studies prepared or received by your company which are included within the following categories:
>
> (*a*) Each market study covering low density polyethylene, high density polyethylene, polypropylene or products made therefrom.
>
> (*b*) Each study showing investments made or considered in low density polyethylene, high density polyethylene, polypropylene or products made therefrom.
>
> (*c*) Each study showing costs of research, development, production, or marketing of low density polyethylene, high density polyethylene, polypropylene or products made therefrom.
>
> (*d*) Each study showing profits made or estimated from production or sale of low density polyethylene, high density polyethylene, polypropylene or products made therefrom.
>
> Do not include regular or periodic accounting tabulations or reports unless there is no other source of cost or profit information for your production of low density polyethylene, high density polyethylene, polypropylene or products made therefrom.

Mr. THOMAS. Repeat the first part of your question 5. What did it say?

Mr. BOLAND. Each study showing investments made or considered.

Mr. THOMAS. What is the purpose of your inquiring what studies they are making? Are you trying to tell them they should not do research?

Mr. MUELLER. No, sir.

Mr. THOMAS. Your people are economists, not organic chemists. Are you going to criticize their talents and their efforts in making the study? What is the purpose of that outlandish questionnaire?

Mr. MUELLER. That is not all studies; it is all studies relating to the three major factors.

Mr. THOMAS. What are the three factors?

Mr. MUELLER. Investments and profits——

Mr. THOMAS. What else?

Mr. MUELLER. Market studies.

Mr. BOLAND. You are asking for information that is highly confidential. This is something which, if these companies start to give this information to a Government regulatory agency, about the profits and research, this becomes almost public property despite what the Commission might say about protecting the information given to it.

Mr. THOMAS. How many people are engaged in this particular line of work?

Mr. MUELLER. Two senior persons and a supporting staff.

Mr. THOMAS. You do not mean to say two people could think up such a questionnaire as that. It would take two or three dozen.

Mr. MUELLER. The reason we have asked for this information in this form is this: In every past study of the Federal Trade Commission dealing with an industry such as this, we have asked for and received profit and investment data. An example is the antibiotics study which was published in 1958. In that case the Commission obtained such information.

Mr. THOMAS. Why are you interested in profit if there is a surplus of their product on the market and they allege hard times? Do they not say that if you want this product, here it is, nobody is buying it, we have a surplus of it? What is the purpose of it? What do you expect to gain? Has not the industry benefited and served the public well? Is there any complaint about anybody being sandbagged for prices?

Mr. BOLAND. Or price fixing?

Mr. MUELLER. There are complaints and problems here.

Mr. BOLAND. I did not ask about problems. I asked if there were complaints from anyone with respect to price fixing in this industry. Have you complaints in your files from people or any source accusing this industry of price fixing?

Mr. MUELLER. No, sir.

Mr. THOMAS. That ends all the argument.

Mr. WYMAN. I just want to ask, has anybody refused to answer your questionnaire?

Mr. MUELLER. No; they have not.

Mr. WYMAN. Not a single industry has refused to answer an isolated question on your questionnaire?

Mr. MUELLER. This is what has happened on this question: A number of companies have expressed great concern with respect to the way in which the Commission might disclose the information as to question 5. We have discussed this matter with several companies and think we have arrived at a mutually satisfactory arrangement.

Mr. THOMAS. All right. Let us not harass the industry. We will recess at this time and come back at 1 o'clock.

AFTERNOON SESSION

Mr. THOMAS. Gentlemen, will the committee please come to order?

Mr. Chairman, had you just about completed your statement? Did you have anything further that you wanted to add? If you do not, we will take a look at the budget.

Mr. DIXON. I wanted to make one simple comment on what we were talking about when we left here, Mr. Chairman.

Mr. THOMAS. That was on the economic subject.

Mr. DIXON. Yes, sir. We knew at the Commission level that not only did we have the formal matter against Union Carbide, which involved a merger situation with the Visking Co., but as we disposed of that matter we had several other problems developing in this industry. With mergers, very rarely, if at all, does anyone come and complain? This is clearly the responsibility of the Commission, together with Justice, to stay alert in this field.

We knew that as this industry was developing, sir, that starting with the gas—they had come back into petroleum and gas, and were moving on into resins, and on into the polyethylene film and the other end products—there was an indication that there the industry would become completely vertically integrated, either by merger, where we already had some problems under study, or by internal development.

In order to measure and determine how we should treat future problems in this field, we determined, upon the recommendation of the staff, to initiate this economic inquiry into this industry.

CONFIDENTIAL NATURE OF INFORMATION REQUESTED

We thought we would be in a better position to determine whether or not to institute any new formal proceedings. It was in that connection that the questionnaire was first sent out and then ultimately supplemented by the form requesting profit and cost information. Some industry members objected to providing such costs and profit figures, which many people do consider, as you say, Congressman Boland, the highest type of confidential information.

In the past when the Commission has deemed it necessary to ask for this type information it has been handled in such a way to where confidentiality was respected. After the staff had consulted with several companies and discussed this problem with them, the Commission gave these companies certain assurances. First, it agreed that the information obtained would not be reported in a fashion disclosing the operations of individual companies, and, furthermore, as soon as the Commission has completed its evaluation of the information contained in company documents, the documents would be returned.

That is where it is as of today. Most companies apparently feel that this gives them the protection they need.

There is one other problem in this respect.

Mr. THOMAS. Mr. Chairman, you are a practical man. It goes back to the old expression and saying, "Two people cannot keep a secret." If these people send their confidential information over there, trade secrets, whatever you may call it, and you have 127 people just within the Division alone, if it gets there Monday morning, the trade papers or the press will have it before Saturday night. No one will ever know how it got out but they will have it. That is the way it

works. When we say we will keep it quiet, that cannot be done. Two people cannot keep a secret.

Mr. DIXON. Congress took care of that in the FTC because they wrote into the law that this would be considered a misdemeanor for anybody at the FTC to reveal such information.

Mr. THOMAS. I know anybody over there wouldn't do it. They just won't do it.

Mr. DIXON. It has not happened in the past.

Mr. THOMAS. A little bird will fly over and get it and leak it to the press.

Mr. DIXON. It hasn't happened in the past, in the many times we have had it. I want to take one more step. You heard Dr. Mueller.

BASIS FOR USING QUESTIONNAIRES

Mr. THOMAS. It ought to be placed on a different basis than that. If it has merit, it ought to be done; if it is punitive or a fishing expedition, or if there is no danger of restraint of trade or developing of monopoly in any of its various aspects, as Mr. Boland pointed out and Dr. Mueller apparently agreed, that you have a surplus of products; they are begging on the market. You ought to consider those things. We do not want to tell you how to run your business.

Mr. DIXON. We are certainly aware of the attitude of the Congress on this problem. We do not go into these things very lightly. I know we did not go into this very lightly. We studied it quite a while.

Mr. THOMAS. Look at the questionnaire. A Philadelphia lawyer could not figure out what you want in that.

Mr. DIXON. They do not have any trouble figuring it out.

Mr. BOLAND. I wouldn't have any objection to a questionnaire when you are considering some phase of the American industry where you have a complaint on price fixing, where you have a specific complaint that ought to be looked into. This committee has oftentimes given specific money to this agency to do this sort of thing. We are in favor of this. We are against mergers which stifle competition. We want you to enforce the Robinson-Patman Act, the Clayton Act. This is one of the greatest jobs we do. I think it is different when it goes into an industry that you are harassing. There isn't any question about it. If there was some real logical reason for conducting the survey, if they were guilty of something and you needed the information, this is fine. I would then have no objection to it. I do have objection to this.

Mr. DIXON. There is one other problem in this respect, Mr. Chairman, and then I am going to stop on it because I know you are tired of it, but Dr. Mueller mentioned the dual distribution problem that is developing here. I want to take you back to a study under your committee, or one of your subcommittees, Congressman Evins, that Congressman Roosevelt has conducted on the overall problem of dual distribution. Is the law adequate? Should something be done, if so, what? Today, after appearing before that subcommittee, each of the individual Commissioners is trying to arrive at his individual answers to a whole series of questions.

Fundamentally, when we were there we suggested that we would be in a better position to discuss the overall problem of dual distribution if we had several pilot studies.

It is clear that you could not reasonably make any kind of rational evaluation of a dual distribution situation unless you had costs and profits.

Now to do this it would have to be done practically speaking in an economic study, not one where you had in the beginning reason to believe that the law was already being violated; one that should be done very carefully. You should have complete information to do it.

I understand the chairman said we ought to be reasonable people here. I am trying to interpret this to mean that we ought to do this in the extreme situations where we deem that it is absolutely necessary. But I guarantee to you the instant that we do it, you are going to hear about it. They will tell you that we are mischievous and should not do these things.

Mr. THOMAS. We hear all that. We think about 99 percent of your actions are right on the button. I do not think anybody can bat any better than 99 percent, do you?

Mr. DIXON. That is a mighty good average. As I reported to you in the past, we do have and are expected, especially by the Budget Bureau——

Mr. THOMAS. You just had somebody calling you over long distance complaining the bottom fell out of the cattle market. A lot of people phone complaining about chainstores, getting too many chickens and butter. The price of sweet milk is going down. You have a lot of complaints. Why don't you put some time on those items?

Mr. DIXON. I assure you we do.

Mr. THOMAS. You have really broad authority, there, do you not?

Mr. DIXON. Mr. McIntyre brought them to my office, a delegation of Western producers of beef.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. THOMAS. Are there any further general questions? This has been very instructive and very helpful, Mr. Chairman. We are grateful to you and your colleagues and your very genial staff for advising and helping us.

Did you and Mr. Boland come to any conclusions?

Mr. DIXON. Sir, I would hope so. I would like to sum up by just saying this——

Mr. THOMAS. Did you come to a conclusion?

Mr. DIXON. I do not know.

Mr. BOLAND. The reason we have a direct concern is we have plants in our area who employ people. I know Monsanto laid off 65 people in this particular segment of the industry. They were not able to find a market. This is a major concern, when an industry is harassed over a survey that ought not to take place. If there was violation of the law or price fixing, all right. Mr. Mueller has suggestions that come from the industry. I think you ought to agree with them. They should answer questions, except question 5. I think you ought to take their safeguards and not yours.

Mr. DIXON. We will certainly look at that. We believe that we have reached that conclusion, but if it isn't perfectly worked out——

Mr. THOMAS. How many people were laid off?

Mr. BOLAND. Sixty-five. This is a small marketing section for this.

Mr. DIXON. We will keep you advised on this.
Mr. BOLAND. Thank you.

SUMMARY OF BUDGET ESTIMATES

Mr. THOMAS. Let's put the general statement in the record. It more or less rehashes the chairman's statement.
(The statement follows:)

SUMMARY OF 1965 BUDGET REQUEST—FEDERAL TRADE COMMISSION

"In 1964 and beyond," President Johnson said in his Economic Report to the Congress, "we seek a free and growing economy which encourages free enterprise, innovation, and competition by citizens in all walks of life." The Federal Trade Commission is a law-enforcement agency directed toward maintaining the free play of competition in the effective functioning of our free competitive economy. The fiscal year 1965 Commission budget has been guided by three principles—to protect the American consumer and small business from unfair business practices, to promote vigorous competitive business activity, and to do this vital job by practicing frugality through real economies in Commission operations.

The budget request for the FTC in fiscal year 1965 totals $13,270,000 which, while an increase of $1,055,250 over the 1964 appropriation, only provides for an increase of 27 positions and $171,000 for new positions and $159,000 in increased operating costs. The balance of $725,000 will be required for necessary costs in 1965 over which this Agency has only limited control. Included in this total is $250,000 for a half-year cost of the pay raise that went into effect on January 5, 1964, restoration of reductions required in our enforcement programs in 1964 amounting to $106,250 in personal services and $115,000 in travel funds, $114,000 to purchase the electronic computer now on a rental basis which will result in a saving to the Government of $41,000 per year beginning 2 years after purchase in addition to a $29,000 saving of rental costs in 1965, and $140,000 for within-grade promotions and to protect the Government's investment in young attorneys on our staff by reducing uneconomical turnover through a promotion program in line with their demonstrated abilities and salary scales comparable with private law firms and private industry.

This budget request for fiscal 1965 provides the Commission with the minimum of personnel required to function under its legal obligations to protect the American people from hazardous consumer products, price-fixing agreements and product misrepresentations. This budget covers preventive measures involved in our programs to advise and guide businessmen on the requirements of the law entrusted to the Commission, in order that costly legal investigations and formal hearings might be avoided whenever practicable, thereby saving money for the public, business firms, and the Government.

The Commission's budget makes provision for a long-delayed necessary program to check up and determine compliance with the Commission's outstanding cease-and-desist order against violators of laws it administers, particularly where resumed violations might increase significantly the cost of essential goods and services which consumers must purchase. The millions of dollars invested in obtaining these Commission orders agaisnt unlawful business practices are wasted unless such orders are obeyed by companies covered, and checked by the Commission for compliance. The purpose here is to shore up our previous investment in investigation and litigation, and to save larger expenditures which would be involved later in prosecuting widespread violations likely to result from inadequate enforcement of existing orders.

The Commission's proposed fiscal 1965 enforcement programs are condensed in the following:

One of the most important of the Commission's responsibilities is the law violation in the field of deceptive advertising that warrant a full-scale drive to keep them from making a farce out of law enforcement as well as abusing the consuming public and undermining the credibility of all advertising. At the top of the list comes a galaxy of products advertised as beneficial for the health, digestion, weight, and beauty of credulous citizens. Here the deception is achieved not by the labeling of the products advertised but by their advertising. Here, by lack of forceful action, the FTC is exhibited to the advertisers of all other products as an agency incapable of dealing even with obvious exaggerations and falsehoods.

The Commission's enforcement program planned in the fiscal 1965 budget provides for the launching of a showdown on the validity of advertised claims for consumer health protection. It will be a difficult undertaking, for this industry is not lacking in adroitness nor resources. Last year, sales of packaged medications totaled almost $2 billion and advertising of principal drugs and health aids exceeded a quarter of a billion dollars. Cosmetic and toiletry sales also totaled almost $2 billion while the advertising of the principal brands ran to more than $300 million. Other equally impressive expenditures are cited in the accompanying text, but there need be no doubt that the response to FTC probing will be fast, furious and with all the legal competence that money can buy.

The funds requested by the Bureau of Deceptive Practices will also be used to overcome present handicaps in manpower and clinical testing vital to a successful challenge of exaggerated claims for a wide variety of products. These include pain-relieving drugs of furiously competing speeds being sold at a $360 million annual rate; arthritis and rheumatism concoctions being sold to 12 million sufferers for "cure" or "quick relief"; a host of impressive claims for vegetable oils and margarine products as heart attack insurance; air filters and purifiers that will remove any germ that worries a buyer; and, of course, the nasal sprays, mouth washes, liniments, sirups, and tablets that have conquered the common cold or, at least, its unpleasant features.

Also to be given a hard look will be the advertising of dentifrices and oral hygiene products to determine how much meaningful fact underlies the various scientific and psuedoscientific tests which establish each as superior to the other. Not only the public but even the industry can't be sure where bona fide tests stop and copywriters' pencils continue.

This budget also would make possible an intensification of FTC's efforts to protect consumers from fanciful claims for the health benefits of vitamin and mineral preparations, special dietary foods, and so-called health foods. More than $200 million worth of over-the-counter preparations of this type were sold last year. Significantly, the broader and more extravagant claims were made in the advertising of these products; their labeling was more circumspect.

Another and very large area of questionable advertising affecting the consumer health is directed at the nearly one-fourth of the U.S. population who is overweight. The FTC already has underway an industrywide investigation of reducing devices, such as girdles, vibrators, and exercises, but due to shortage of manpower we have been virtually powerless to investigate the more inviting exaggerations of how to lose weight with a drug or an easy dietary plan including food supplements. Here again consumer deception and danger lurk far more in the advertising of the products than in their labeling.

The consumer health area of current national concern today involves the smoking of cigarettes. The January report of the Surgeon General's Advisory Committee stated that cigarette smoking is a substantial cause of the increasing death rate. Protection of the consuming public from false, misleading, or unfair advertising (including labeling) of products that may endanger human health or safety is a prime duty of the Commission. Therefore, the Commission has determined that the public interest requires initiation of a trade regulation rule proceeding for immediate corrective action of advertising and a public hearing is scheduled for March 16, 1964.

Although the advertising of all the foregoing products (as well as others discussed in the text) has serious implication for public health, the FTC has been able to correct only a very little of that which is false and misleading. The reason: lack of money and manpower. Indeed, there are other product areas, such as analgesics and germicides, that haven't even been touched by the FTC even though their advertising clearly invites regulatory attention.

Additionally, the Commission will intensify its monitoring of advertising to deter filching of money from the consumer through the use of flagrant deception in the sale of products such as food, mineral, and vitamin preparations, household equipment, and home improvements, and necessities of life of special significance to low income families and the aged. Promotional practices or misrepresentations as to the cost of credit charges which divert trade from, or otherwise injure, small businessmen and consumers will be given close scrutiny by the Commission during fiscal 1965. The Commission's responsibility to prevent deception extends, with few exceptions, to all goods and services sold in commerce.

It is true that this long delayed drive calls for additional money, but the alternative is ineffective action in this vital and explosive area of advertising affecting the health of consumers. Moreover, these are products whose advertising all but saturates the airwaves and is prominent, indeed, in the printed media. To millions of Americans, this advertising creates the character of all advertising. If it offends credibility, then other advertising also becomes suspect. Thus, for the FTC to be ineffective in regulating such widely disseminated advertising of products so important to consumers has far-reaching implications. And not the least is that the Nation's 12 billion advertising dollars are substantially devaluated in their purpose to stimulate business. Certainly real economy dictates spending the small amount the FTC asks to alleviate this situation.

The only substantial increase for additional manpower and funds requested by the Commission in 1965 is for additional enforcement of the Wool, Fur, and Textile Acts.

The Wool, Fur, and Textile Acts each require affirmative labeling disclosures. The Fur Act further requires affirmative invoicing, while disclosures made in the advertising under the Fur and Textile Acts are regulated. The Flammable Fabrics Act prohibits the introduction or movement in interstate commerce of dangerously flammable wearing apparel and fabrics intended for use therein.

Unlike other statutes administered by the Commission, compliance with the terms of these acts must be continuously policed to assure that members of industry are living up to their requirements and consumers are afforded the protection intended by Congress. The task of administering the Wool, Textile, and Fur Acts is reflected by the tremendous size of the textile industry. Over 100 different industries are engaged in the manufacture of textile products subject to the provisions of these statutes. Each year the sales of textile products covered by the acts run into billions of dollars. Next to food and shelter, textile products, including wearing apparel and household furnishings, constitute the most important segment of our national economy. Additionally, approximately 175,000 distributors of fur products are subject to the Fur Act.

This country is importing tremendous quantities of wool and nonwool fabrics and garments. The foreign mills and manufacturers are not always cognizant of the labeling and invoicing requirements under our Textile Act, and as a result a constant check must be made of these products. Since foreign manufacturers are outside the jurisdiction of the Federal Trade Commission, we must work closely with the Bureau of Customs in policing foreign imports. As a result of this cooperation the entries of many misbranded items have been stopped and corrected before the merchandise entered the American market.

For the past year simulated fur fabrics made from natural and manmade fibers have been extremely popular. The advertising and labeling of garments made from these fabrics has presented a problem as some manufacturers have concocted trade names and descriptions for their products that are misleading to the public.

It should be noted that the day-to-day inspection of these products is of real concern to consumers, particularly women, for furs can be skillfully dyed or otherwise treated to appear to be of better quality or from more desirable animals than is the fact. Therefore, truthful labeling assumes a far greater importance than fur products whose quality is more easily appraised. The same situation obtains for textiles where the percentages of new and reused wool can, without proper labeling trick even the sophisticated buyer, and, of course, the new synthetic fibers would have anybody guessing were it not for proper policing of the labels.

There are only 37 investigators to do this tremendous inspection job throughout the entire United States. Some of these investigators are located in field offices of the Commission, but others are located in field stations, in some of which only one or two men are assigned. Some of these field stations have responsibilities for regional inspections covering several States. The field investigation staff, in addition to carrying on routine inspections and industry counseling in all phases of manufacturing, processing, and distribution of textile and fur production, also performs most of the investigations in formal cases leading to complaints under the direction of the Bureau of Field Operations.

Despite continuing and earnest endeavor to carry on as best it can, the Division's investigators are able to inspect only a mere sampling of the hundreds of thousands of concerns engaged in some phase of the textile and fur industry. This includes the fiber producers, spinners, processors of natural and manufactured fibers, mills, manufacturers, importers, wholesalers, and retailers involved in production and distribution.

During fiscal year 1963 only 4,619 inspections could be made by this small staff. While these inspections, by sampling methods (except furs), covered some 50 million products, more than 4 million labeling or other deficiencies were found which resulted in 101 formal complaints, 113 cease-and-desist orders, and 1,400 assurances of discontinuance.

To insure that the public shall receive the protection intended by Congress, it is obviously necessary to police the manufacture and distribution of products subject to these laws. Without question, 100 percent inspection of all the concerns involved in all these industries in the textile and fur field would be impossible. Therefore, it is necessary that the policing the staff is physically able to do shall be carried on in strategic areas and in strategic industries.

It is obvious that the staff available for enforcement of these statutes is wholly inadequate and the Commission is requesting 25 additional attorneys and investigators which will require $127,000 and $35,000 for travel.

The guidance of industry by voluntary means as an alternative to costly adversary actions whenever possible is being given greater emphasis than at any time in the FTC's 49-year history. Whether the voluntary procedure involves a request for guidance from an individual firm or whether the industrywide problem can be lessened by the issuance of rules or guides, far more compliance with the law can be achieved with the same amount of enforcement money. But there can be no question that the guidance program places a very considerable burden on the Commission and its staff. Even though it is cheaper to avert a violation than to correct it, the work involved in averting it calls for competent manpower.

Consider first the FTC's program for the issuance of advisory opinions, a program which has been in effect only 19 months. Requests for opinions totaled 326. The Commission disposed of 71 by formal action. The number of requests for advisory opinions during the fourth quarter of calendar year 1963 increased by almost 70 percent over the preceding quarter. The widespread dissemination of information on our advisory services, as indicated by requests for 45,000 copies of the Commission's booklet describing these services, will result in further substantial increases in business requests for advisory opinions from the Commission.

The opinions sought were not on simple questions. Many dealt with such complex matters as whether proposed mergers would violate the law, the legality of cooperative advertising plans, and whether functional, quantity, and cumulative discount plans would be legal.

There can be no doubt that as this advisory opinion service becomes more widely known, particularly to small businessmen, the volume of work will rise sharply. (The first to appreciate it were the big law firms and their clients, but efforts are underway to spread the word to businessmen generally.) Also plans are underway for issuing a digest of previously rendered opinions given to individual applicants with, of course, due regard for protecting trade secrets.

A significant increase in demand is being made for the issuance of trade regulation rules, a companion innovation looking to industry's guidance. They are proving to be of great interest to businessmen inasmuch as they spell out clearly what the Commission considers the requirements of the law to be as it relates to a particular subject. Their preparation involves extensive study and public hearings, for the FTC will rely upon them in adversary actions. A year ago the staff assigned to this work had 8 proceedings pending; today 20, and the staff, still the same size, is, of course, overloaded. Here again the inevitability of delay wil sabotage the program unless the staff is enlarged.

In other major areas of FTC's industry guidance work; namely, the industry guides and trade practice conference programs, one need is the very obvious one of protecting the investment of time, money, and business confidence in the rules and guides that already have been issued, and another need is to tackle industry problems by these broad-scale voluntary methods whenever possible as an alternative to the more costly litigation method.

There are now 168 industries under rules, with 4 more to be issued by this fiscal year's end. The four are for the fresh fruit and vegetable, the gypsum, the hard-surface floor covering, and the braided rug industries. All 172 rules, of course, will have to be administered and kept up to date. The same is true of the 10 guides now outstanding, and the 2 more for mail-order insurance and for room air conditioners, to be added this year. Altogether, 1,100 compliance matters had to be handled during fiscal 1963.

Plainly the workload here is cumulative; for the more rules and guides that are in effect, the heavier becomes the task of administering them.

Although not included with industry guidance work, a far-reaching decision which serves this purpose was made last August 1 by the Commission. This was the decision to offer advice to those bound by FTC orders on whether any course of action they propose to take will violate the particular cease-and-desist order to which they are subject. The Commission was aware that this amendment of its rules of practice might well prompt a flood of requests for such advice from respondent firms who have no appetite for any future litigation with the FTC. Yet, elemental fairness demanded that these respondents be given opportunity to find out by some means other than facing a penalty suit whether (1) they have succeeded in complying with FTC's order or (2) whether a future course of action would contravene it. It is, of course, too early to determine exactly how much additional work for the staff this rule change will generate, but that it will be sustantial there can be no doubt whatever. Particularly difficult will be the reviews of compliance reports filed in connection with antimonopoly orders, for many of these would require analyses of new pricing policies, cost data, competitive effects, and other complex matters. The task would fall most heavily on the Compliance Divisions, the Division of Accounting, and the field offices.

The entire subject of compliance with outstanding orders has been given the most careful consideration in preparing our 1965 operating programs. The time has come to pull it out of the backroom and face up to the fact that it has been neglected, most particularly in the field of antitrust.

The FTC has issued about 1,250 restraint-of-trade orders, many involving multiple respondents and affecting significant markets and segments of the national economy; yet, the Commission has no way of knowing with any degree of certainty whether they are being obeyed. No systematic check of compliance with these orders is being made.

Simply to handle current cases, the Compliance Division of the Bureau of Restraint of Trade already is overloaded to the extent that each attorney has responsibility for 30 current cases at the same time. These are active cases on which action within 60 days after their issuance is legally mandatory. And this was the situation before the previously mentioned rule change entitling respondents to opinions on whether their revised or proposed practices comply with cease-and-desist orders against them. Nevertheless, the Commission is firmly convinced that a thorough compliance check of its outstanding orders must be undertaken, for the very good reason that an unenforced order is worse than none. The cost will be considerable. Of course, this badly needed compliance check might have been meat axed out of the budget under the guise of economy. But real economy demands that the millions of dollars spent in obtaining these orders be not wasted.

In the field of deceptive practices, the problem of ascertaining compliance with old orders is less serious, for the reason that both the public and business competitors are not slow to detect and report when a respondent is violating an order against him. (Violations of restraint-of-trade orders on the other hand are far harder to detect.) Even so, there must be vigilance in policing compliance with deceptive practice orders or they, too, become nullified. The number of deceptive-practice orders requiring surveillance has increased every year, but there has been no increase in the professional staff for the past 3 years, with the result that 9 nine attorneys are now weighed down by a workload averaging 63 active cases each. Obviously they cannot, without the additional manpower, be expected to carry the new compliance program with its far heavier responsibilities.

Fortunately for the FTC's program to revitalize its outstanding orders is that another difficult and costly responsibility in the field of compliance is drawing to a close. This is the Justice Department's mandatory request in early 1961 that the FTC investigate compliance with 56 of its older antimonopoly orders. These were tough cases to investigate; most of them involved multiple corporations, including some of the biggest. To handle this extra work, the FTC was given an extra appropriation of $915,000 in 1962, whereupon commenced the difficult task of hiring and training new attorneys and integrating them into the staff so that competent attorneys could be assigned to the Justice Department cases. (Progress in the handling of these is described in the text of this budget request.) Attorneys who gained experience on the Justice Department assignment can provide a strong nucleus for the FTC's own and much more extensive compliance check.

As a matter of plain fact, this badly needed compliance check cannot be undertaken without the $915,000 that has provided the additional staff for the Justice

Department work. This money—and the staff strength and expertise in antitrust investigations that it has bought (currently more than a $2 million investment of Government funds)—must be retained or FTC's own outstanding orders must continue to be neglected and, alas, many of them ignored. A planned reassignment of manpower to the most pressing Federal Trade Commission compliance matters will be instituted as fast as the Attorney General's work is completed.

It might well be pointed out here that the problem of integrating young lawyers into FTC's staff is no small one, and to retain them under an overload of work—which too often involves night and weekend work without pay—when those who reveal ability can make far more money under less arduous conditions in private industry presents an even graver problem. Time and again, the FTC is forced by lack of manpower to pit fledgling attorneys against many times their number of experienced and highly paid defendants' lawyers in the trial of cases. Thus, it should be obvious that there is no economy in so overloading an FTC attorney that his enthusiasm for public service wears too thin, for if he reveals ability, his Government salary will be no inducement for him to stay. Indeed, real economy dictates the need to advance competent young attorneys as fast as they can meet greater responsibilities. A too tight budget could be costly indeed to FTC's manpower, as well as to public service.

Badly hit by the loss of experienced manpower due to a rising overload of work and understaffing is FTC's Bureau of Restraint of Trade. Here uncompensated overtime for its attorneys is the rule not the exception. Moreover, during this fiscal year and in fiscal year 1965, the situation can only worsen, for no additional manpower can be made available.

The unvarnished fact is that the Bureau of Restraint of Trade can only attempt to keep the FTC from falling hopelessly behind in its effort to keep small firms from being driven out of business by the illegal use of buying power by their big competitors. Indeed, regardless of the financial strength of those who employ unfair and discriminatory methods, the unfavored suffer just as much.

The ultimate loser, of course, is the consumer, for as business competition dwindles and disappears in one area after another, he awakens too late to the meaning of those uninteresting words, "trade restraints" and "antimonopoly." At that point, all he can do is to fume at the new higher prices he must pay for life's necessities and sadly remember the old price that was set by free and fair competition.

The number of formal antimonopoly complaints issued by the Commission has increased from 36 in fiscal 1955 to 230 in fiscal 1963 or fivefold, and the number of cease-and-desist orders increased nearly ninefold from 30 in fiscal 1955 to 261 in fiscal 1963. These substantial increases in Commission antimonopoly actions relate to Commission policy of moving against violations of law on an industry-wide basis, after investigation uncovers that large numbers of industry members use the same illegal trade practices.

In enforcing section 2(a) of the Clayton Act as amended by the Robinson-Patman Act, prohibiting the giving of discriminatory prices to favored buyers (usually the biggest) the investigative and litigaton workload amounted to 34 cases per attorney or more than three times the number he could be expected to handle efficiently. In addition, the 40 available attorneys were called upon to process 4,500 correspondence matters relating to applications for complaint and pending cases.

Such is the workload of the Bureau's Division of Discriminatory Practices whose vitally important job is to enforce section 2 of the Clayton Act as amended by the Robinson-Patman Act and its prohibitions against price and other forms of discrimination that favor big buyers at the expense of their little competitors. The Division also has responsibility for bringing cases against the inducement of these discriminations, as well as cases involving exclusive dealing.

Complicating the work of this Division—but necessarily in the interest of effective law enforcement—is the Commission's policy of attacking violations wherever feasible on an industrywide basis, rather than following the former "squirrel gun" approach that could pick off only scattered violators.

Just 16 attorneys, representing 40 percent of the Division's available trial staff, are straining to shoulder the staggering job of industrywide enforcement actions against (1) processors and retail chainstore distributors of fluid milk, (2) manufacturers of wearing apparel, (3) department stores and grocery chainstores, and (4) automotive replacement parts.

The Bureau of Restraint of Trade is currently analyzing the results of its milk price war investigations, based on small business complaints and investi-

gational hearings on charges that milk was used as a loss leader in various sections of the grocery chains, and that the price of milk was cut temporarily to drive out the competition of the small milk producer-distributor. The Bureau was also active in enforcement of section 7 merger cases in the milk industry.

The Bureau has several merger and price discrimination investigations under way in the cement industry. The industrywide cement program launched by the Bureau in fiscal 1963 has resulted in formal complaints against four major companies. This industry program serves as a potent deterrent in halting substantial mergers in the concentrated cement industry, and in slowing down illegal merger invasions by cement producers into the small-business ready-mixed concrete industry which uses cement.

There are also some 10 complaints at various stages of litigation involving mainly pricing practices of major oil companies. The Bureau is also conducting several other investigations into gasoline prices, and also into competitive practices in the apparel industry. The Commission has obtained orders against suppliers of men's, women's, and children's wearing apparel, and in fiscal 1965 the Bureau of Restraint of Trade will continue its investigations into large chain department stores and other large apparel buyers to find out the extent of their participation in inducement of discriminatory prices, allowances and/or services.

The Bureau of Economics contributes an increasingly important role in the Commission's law enforcement program. Economists in the Division of Economic Evidence during fiscal 1963 gave economic assistance on 70 investigations and 30 formal cases, mainly mergers. This Division screened more than 1,200 mergers, prepared analyses of the economic effects of significant mergers on competition, and compiled quarterly and annual merger statistics. Economists also supplied assistance on compliance cases; more demands in this area are likely where decisions under amended section 7 of the Clayton Act require divestiture of acquisitions, often an examination of the merger record and scope of business operations of the proposed corporate purchaser requires an economic analysis of the markets and small business competitors affected by the divestiture. In addition, the Division of Economic Evidence supports the Commission's enforcement program in analyses of significant alleged or suspected false claims based on statistical sampling, in assisting the advisory opinions' staff on complex economic issues usually involved in proposed mergers, and in planning and in conducting section 6 surveys for the collection of data relating to the investigation and trial of merger cases.

For half a century the economic reporting functions of the Federal Trade Commission have constituted one of the Nation's most important instruments of antimonopoly action. The legislative history of our organic act establishes congressional intent that reporting functions should be extensively used as one of the principal means of curbing monopoly power. The Bureau of Economics has underway a study of the effects of Commission merger cases upon competition and concentration in the dairy industry, and it is examining the problem of vertical integration in the rubber tire industry.

The Bureau is also investigating and analyzing competitive conditions in the manufacture and sale of polyethylene-polypropylene resins and products. During fiscal 1965 the Bureau will complete an economic report on this complex and expanding part of the plastics industry. Finally, in anticipation of increasing national concern with oversea trade and competition posed by the Common Market, the Bureau of Economics is making a study and report on export trade associations to enable the Commission to better assess its responsibilities under the Webb-Pomerene (Export Trade) Act of 1918.

STATUTORY AUTHORITY

Mr. THOMAS. For the record, we will include pages 2 through 4 on the statutory authority of the Commission.

(The pages follow:)

STATUTORY AUTHORITY AND DUTIES OF THE FEDERAL TRADE COMMISSION

STATUTORY AUTHORITY

The Federal Trade Commission, an administrative agency, created by the act of September 26, 1914, is charged with the enforcement of the Federal Trade Commission Act as amended by the Wheeler-Lea Act, approved March 21, 1938

(52 Stat. 111–117); section 2 of the Clayton Act, as amended by the Robinson-Patman Act, approved June 19, 1936 (49 Stat. 1526), and sections 3, 7 as amended and 8 of the Clayton Act of October 15, 1914 (38 Stat. 730); the Export Trade Act, approved April 10, 1918 (40 Stat. 516); the Wool Products Labeling Act, approved October 14, 1940 (54 Stat. 1128); the Insurance Regulation Act, approved March 9, 1945 (59 Stat. 33), the Lanham Trademark Act of 1946, approved July 5, 1946 (60 Stat. 427); the Fur Products Labeling Act, approved August 8, 1951 (65 Stat. 175); the Flammable Fabrics Act, approved June 30, 1953 (67 Stat. 111); amendment to the Packers and Stockyards Act, 1921, approved September 2, 1958(72 Stat. 1749); and the Textile Fiber Products Identification Act, approved September 2, 1958 (72 Stat. 1717).

DUTIES

The principal duties of the Commission under the above-mentioned statutes are:

(1) *The Federal Trade Commission Act.*—Under this act, the Commission is charged with (a) the prevention of unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce; (b) the conduct of investigations relating to (1) alleged violations of the Antitrust Acts, (2) the manner in which decrees in antitrust suits brought by the United States have been carried out, and (3) the organization, business, conduct, practices, and management of corporations engaged in commerce (with certain statutory exemptions) and their relation to other enterprises; (c) the making of reports and recommendations to the Congress with respect to legislation; and (d) the conduct of trade conferences of industries for the elimination of unlawful and unethical business practices.

(2) *Clayton Act.*—Under sections 3, 7, and 8 of this act the Commission is charged with the duty of preventing and eliminating unlawful tying contracts. corporate mergers and acquisitions and interlocking directorates. Under the Clayton Act, as amended by the Robinson-Patman Act, which greatly enlarged and increased the jurisdiction and duties of the Commission in respect to unlawful price discriminations, the Commission is charged with the prevention of certain specific practices; i.e., unlawful price and related discriminations.

(3) *Amendment to Packers and Stockyards Act.*—The provisions of this amendment extend the Commission's jurisdiction to cover certain matters previously subject to the exclusive jurisdiction of the Secretary of Agriculture.

The amendment, in effect, grants the Commission jurisdiction over the activities of packers not related to livestock, meats, meat products, and the like. The Commission is granted additional power and jurisdiction over all transactions in commerce in margarine and olemargarine and over retail sales of meat and related products. Other matters involving meat and related products are made subject to the Commission's jurisdiction where the Secretary requests the Commission to investigate and report or where, under certain circumstances, action by the Commission is necessary to exercise effectively its power or jurisdiction with respect to retail sales of meat and related products.

(4) *Export Trade Act.*—The Commission is responsible for receiving and filing articles of association or incorporation of "associations" organized under the Export Trade Act; investigating their operations which may adversely affect competition within the United States; making recommendations to the associations for readjustments deemed necessary therein; and, where considered appropriate, making recommendations to the Attorney General for penal action.

(5) *Wool Products Labeling Act.*—Under this statute the manufacture for introduction into commerce, or the introduction, sale, transportation or distribution, in commerce, of misbranded wool products, is unlawful, and constitutes an unfair method of competition and an unfair and deceptive act and practice under the Federal Trade Commission Act. The Commission is authorized to make inspections, analyses, tests, and examinations of all wool products subject to the act and to make such rules and regulations as may be necessary and proper for the administration and enforcement of the act. In addition, the Commission is also empowered under the statute to prevent the movement of misbranded wool products in commerce by injunction and to proceed by libel action in certain cases for condemnation of such products.

(6) *Insurance Regulation Act of 1945.*—The provisions of this Act limit the application of the Federal Trade Commission and Clayton Acts, as amended, to practices in the insurance field which have not been regulated by the States.

This has imposed upon the Commission the task of not only determining whether any given matter concerning insurance violates any of the acts it administers, but also whether the practices involved have been regulated by the States within the intent and meaning of this act.

(7) *Lanham Trademark Act of 1946.*—Under this statute it is the duty of the Commission to make applications for the cancellation of registered trademarks under certain specified conditions. The Commission, as applicant, must secure the proper evidence on which the application for cancellation is based, prepare the application, stating the grounds relied upon, be represented at the hearing before a Patent Office examiner for the purpose of presenting such evidence and otherwise prosecute the matter to a conclusion.

(8) *Fur Products Labeling Act.*—The Commission is charged with the administration and enforcement of this consumer legislation which requires the mandatory labeling of fur articles of wearing apparel, as well as truthful invoicing and advertising of furs and fur products to show, among other things, the true English name of the animal from which the fur was taken. The Commission is also charged with issuing a Fur Product Name Guide and is authorized and directed to cause compliance inspections, analyses, tests and examinations to be made of furs and fur products subject to the act and to prescribe rules and regulations governing the manner and form of disclosing required information under the act. In addition to administrative enforcement, injunctive and condemnation proceedings are also provided for.

(9) *Flammable Fabrics Act.*—Under this act which became effective July 1, 1954, the Commission is directed to prevent the marketing in commerce of all wearing apparel and fabrics intended for use in wearing apparel which when tested under the prescribed standard set forth in the act is so highly flammable as to be dangerous when worn by individuals. Its enforcement is to be carried out through administrative procedures provided for under the Federal Trade Commission Act as well as injunction, condemnation, and criminal proceedings in the Federal courts.

(10) *Textile Fiber Products Identification Act.*—This additional truth-in-fabrics" legislation takes up where the Wool Products Labeling Act leaves off. It became law September 2, 1958, and covers the broad field of mandatory content disclosure in labeling and advertising of textile fiber products. Under its terms, misbranding as well as false and deceptive advertising of textile fiber products is unlawful.

The Commission is authorized, under the act, to make inspections, analyses, tests, and examinations of all textile fiber products subject to the statute, and further, to make such rules and regulations as may be necessary and proper for administration and enforcement of the act. In addition, the Commission is directed to establish generic names for those man-made fibers which have not as yet attained one.

Its enforcement is to be carried out through administrative procedures provided for under the Federal Trade Commission Act, together with injunction and criminal proceedings in the U.S. district courts.

SUMMARY OF POSITIONS AND AMOUNTS REQUESTED

Mr. THOMAS. Put the summary table of positions in the record. It breaks down the $13,270,000 requested. You have executive office, Office of Director, Office of the Comptroller, Office of the General Counsel, Hearing Examiners, Bureau Restraint of Trade, Bureau Deceptive Practices.

(The page follows:)

Comparative summary—Salaries and expenses, fiscal year 1964, with requested funds, 1965

	Allotment fiscal year 1964		Funds requested fiscal year 1965		Increase requested fiscal year 1965	
	Positions	Amount	Positions	Amount	Positions	Amount
Commissioners' Offices	41	$453,000	41	$466,000		$13,000
Office of Executive Director	83	599,500	83	620,000		20,500
Office of Comptroller	30	258,500	30	242,500		−16,000
Office of Secretary	48	301,500	48	311,500		10,000
Office of General Counsel	55	588,000	55	619,500		31,500
Hearing Examiners	39	501,000	39	527,000		26,000
Bureau Restraint of Trade	202	2,070,000	199	2,173,000	−3	103,000
Bureau Deceptive Practices	124	1,337,000	127	1,459,000	3	122,000
Bureau Textiles and Furs	95	831,000	120	1,033,000	25	202,000
Bureau Field Operations	288	2,566,250	288	2,717,500		151,250
Bureau Industry Guidance	47	505,000	49	559,000	2	54,000
Bureau Economics	126	930,500	126	999,500		69,000
General operating expenses (not included above)		1,273,500		1,542,500		269,000
Total	1,178	12,214,750	1,205	13,270,000	27	1,055,250

Mr. THOMAS. There are four big Bureaus. Here are Textiles and Furs, 95 to 120; Bureau of Field Operations, 288 and the same in 1965; Bureau of Industry Guidance, 47 to 49; Bureau of Economics, 126. Then you have your "General operating expense" which is "Other objects." We will take that up later. This is a beautiful table. For the fiscal year 1964 you had 1,178 jobs. He wants to increase this by 27, plus the annualized jobs and the way I figure it out it is around 65. What it amounts to on a full year basis is 65?

Mr. DIXON. The replacements, you mean?

Mr. THOMAS. No; if you had to pull it on a full annual basis.

Mr. DIXON. I see.

Mr. THOMAS. You show an increase in dollars and cents in personal services and other objects, an increase of $667,250 for your 27 jobs, with a total cost of $13,270,000, against $12,214,750. It is broken down into your elements of cost. You have a two and a half percent pay increase, your in-grade promotions and then you have your statutory benefits, which you cannot control. You cannot control any one of the three.

It adds up to an increase over last year of about $667,000, or an increase of 27 jobs. Is that a fair statement?

Mr. DIXON. Yes.

COMMISSIONERS AND COMMISSIONERS' OFFICES

Mr. THOMAS. Let's take a look at the Commissioners' offices. Put page 16 in the record.

(The page follows:)

Commissioners and Commissioner's Offices

	Allotment, fiscal year 1964		Requested, fiscal year 1965		Increase, fiscal year 1965	
	Positions	Amount	Positions	Amount	Positions	Amount
Commissioners	5	$100,000	5	$100,000		
Commissioners' Offices	36	345,000	36	355,000		$10,000
Total personal services	41	445,000	41	455,000		10,000
Travel		8,000		11,000		3,000
Total	41	453,000	41	466,000		13,000

Mr. THOMAS. We have one vacancy?

Mr. DIXON. Governor Anderson is resigning as of March 1.

Mr. THOMAS. Is he going to run for Governor?

Mr. DIXON. Yes, sir. It is in the paper. We haven't seen him since he handed it in. We will see him tomorrow.

Mr. THOMAS. The Commissioners have 56 employees. That is a total of 41. What do you set out here? You set out your travel and everything. What is the staff of the Commission? You have one grade 17. Does each Commissioner have one grade 17?

Mr. DIXON. No, sir, only my assistant.

Mr. THOMAS. And you have 10 grade 15's, 1 grade 14, 1 grade 13, et cetera.

We are not going to question on your need of your immediate offices. That is a general pattern. It figures out about six or seven employees to the Commissioner?

Mr. DIXON. A total of 41—that is about correct, Mr. Chairman.

OFFICE OF EXECUTIVE DIRECTOR

Mr. THOMAS. Tell us about our distinguished Executive Director. You need 83 positions, no increase over 1964. In his immediate office he has six. He has 5 in the Office of Information, 10 in administration, personnel, 11, housekeeping activities, 51, a total of 83 (reading):

The Executive Director, as the Commission's chief operating official, directs the Federal Trade Commission's activities to achieve effective and economical operations.

Why not say he is the chief executive officer and directs the Federal Trade Commission's activities? You would save a few words.

Mr. DIXON. We might save a few words.

Mr. THOMAS (continuing reading):

He has responsibility for operational and administrative direction of all the Commission's Bureaus and field offices. The Office of the Executive Director includes the Office of Information.

What is that limitation on your Office of Information?

Mr. DIXON. We are not violating it. We only have one. That is vacant now.

Mr. THOMAS. How many people do you have in your Information Office?

Mr. DIXON. Five.

Mr. GLENDENING. We have actually three on board but there are five set up.

PERSONNEL TURNOVER

Mr. THOMAS. You had appropriated how many full-time jobs for 1964? What was that figure?

Mr. DIXON. 1,178.

Mr. THOMAS. How many people do you have aboard as of February 1?

Mr. DIXON. 1,150.

Mr. THOMAS. There are no vacant slots? You have already pointed out five.

Mr. DIXON. There are 28 really that we are short. There are vacancies.

For instance, my information officer, I am short now, but I don't intend to fill it until after——

Mr. THOMAS. Agencywide, how many vacancies?

Mr. DIXON. Twenty-eight.

Mr. GLENDENING. We do not have the money to fill them. That is why they are vacant.

Mr. DIXON. That is the only reason.

Mr. THOMAS. Nobody quits over there?

Mr. GLENDENING. We lost 28. We cannot fill them because we do not have the money.

Mr. THOMAS. What is the total on resignations, where they do not like you and they quit? What is the total figure, 20 percent?

Mr. DIXON. It is slowing down. I read those into the record.

We have hired 64 and lost 97 this part of the fiscal year 1964. It has slowed down in 1963.

Mr. THOMAS. You only lost 64 out of your 1,400?

Mr. GLENDENING. No, 1,400; our budget only provides a maximum of 1,178.

Mr. DIXON. We appointed 64 and by separations we lost 97 out of 1,178.

Mr. THOMAS. What is your turnover on an annual basis throughout the agency, regardless of causes?

Mr. DIXON. I went back and read those into the record, 1962, 1963, and 1964.

Mr. THOMAS. In round figures here, 1,178 will make it 1,180 jobs for 1964. What is your turnover? What does it look like it will be? Sixteen percent is the figure they use throughout Government prior to this year. Now they are using 14 percent. Are you any different from any other agency?

Mr. DIXON. Not much, sir. That is about right.

Mr. THOMAS. In round figures, that would be a vacancy of less than 1,800 on an annual basis throughout the agency. You do not have to fire anybody.

Mr. DIXON. That is the reason I didn't have to have a reduction in force when you didn't give me enough money for 1964. That is the reason I am sweating it out. I do not want to have one.

Mr. THOMAS. Let's put pages 19 and 20 in the record.

(The pages follow:)

OFFICE OF THE EXECUTIVE DIRECTOR

The Executive Director, as the Commission's chief operating official, directs the Federal Trade Commission's activities to achieve effective and economical operations. He has responsibility for operational and administrative direction of all the Commission's bureaus and field offices. The Office of the Executive Director includes the Office of Information.

The program review officer is included in the Office of the Executive Director although he reports directly to the Commission on all phases of his work. The program review officer has been charged with the responsibility for continuously reviewing the substantive programs of the Commission, such as, restraint of trade (mergers, price discriminations, etc.) and deceptive practices, and for making recommendations with respect to how and where its functions should be exercised in order to best serve the public interest. The program review officer also acts for the Executive Director in the latter's absence.

The additional $19,500 for personal services for the Office of the Executive Director will provide no additional positions and will be required to restore the $9,000 reduction in 1964 plus $10,500 for the 6 months' pay increase costs. A restoration of $1,000 for travel is also requested.

OFFICE OF ADMINISTRATION

The Office of Administration gives policy guidance and general supervision to the management and organization programs, administrative services activities and personnel programs of the Federal Trade Commission. Plans for effective organization and administration of the Commission's management programs. Formulates and puts into effect basic administrative policies. Develops long-range plans relating to needs for personnel, space, supplies, equipment, etc. The Office of Administration includes the Division of Personnel, the Division of Administrative Services and staff assistants.

The staff assistants in the Office of Administration conduct management surveys, recommend organizational and procedural changes, develop operating manuals, report on the operations of the Commission and coordinate policy issuances.

DIVISION OF PERSONNEL

The Division of Personnel initiates, develops, and administers personnel policies and programs in the spheres of recruitment, appointment and placement, training, position classification, performance evaluations, employee relations, welfare, and health and recreation.

This Division is responsible for conducting board of examiners programs for economists and attorneys. For the former it supplies the secretary to a Civil Service board from which selections of individual economists are made by the Federal Trade Commission and the Department of Justice. For the attorneys it has the full responsibility of developing a recruitment program and for examining, rating, and maintaining registers of qualified candidates for submission to operating officials of the Commission for selection. Approximately 1,500 applications from attorneys are received annually and on all of these this Division must do the full job of a Civil Service Commission and an operating personnel office.

DIVISION OF ADMINISTRATIVE SERVICES

The Division of Administrative Services is a central administrative unit established for the purpose of publishing the material made public under section 6(f) of the Federal Trade Commission Act; for the procurement of supplies and equipment; and for supplying other services essential to the functioning of the Federal Trade Commission. The Commission's library is also located in this Division.

The Publication Branch of the Division of Administrative Services clears for format, economy of reproduction, and distribution, all material printed or duplicated by the Federal Trade Commission within the limitations of the laws and regulations as applicable thereto. This Branch also operates a class A printing plant established under the provisions of the regulations by the Joint Committee on Printing of the U.S. Congress; and provides photo-

graphic, photostat, and drafting services. These services are performed by the following sections:

The Stenograph and Composition Section edits for format and typography material to be printed by the Government Printing Office or printed or duplicated in the Federal Trade Commission printing plant and provides stenographic services when bureau pools are overburdened. During fiscal year 1963 over 5,000 pages of copy were produced by this activity for lithographic reproduction in the printing plant.

Office of the Comptroller

Mr. Thomas. Let's put page 23 in the record.
(The page follows:)

Office of the Comptroller

	Allotment, fiscal year 1964		Requested, fiscal year 1965		Decrease, fiscal year 1965	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Comptroller	4	$46,500	4	$48,000	.....	$1,500
Division of Budget and Finance	15	99,000	15	101,000	.....	2,000
Division of Data Processing	11	57,500	11	63,500	.....	6,000
Total, personal services	30	203,000	30	212,500	.....	9,500
Travel	.....	500	.....	1,000	.....	500
Other expenses	.....	55,000	.....	29,000	.....	−26,000
Total	30	258,500	30	242,500	.....	−16,000

Mr. Thomas. That does not change appreciably. It has 30 employees [reading]:

The Office of the Comptroller includes the Division of Budget and Finance and the Division of Data Processing, thus placing all budget, fiscal, and data processing work in one office.

FIELD OFFICES

How many regional offices do we have now?
Mr. Dixon. Eleven.
Mr. Thomas. Where are they located?
Mr. Dixon. Field offices we are talking about. There is one here in Falls Church and we have one in New York, Chicago, Atlanta, New Orleans, Kansas City, Seattle, San Francisco, Los Angeles, Boston and Cleveland.
Mr. Thomas. What is the total?
Mr. Evins. Ten besides Washington.
Mr. Thomas. What is the total?
Mr. Dixon. A total of 11.
Mr. Thomas. I mean total employment.
Mr. Dixon. Currently 264.
Mr. Thomas. Washington has 40, New York, 71, Chicago, 34, Kansas City, 10, San Francisco, 16, Seattle 18, Cleveland, 13, Boston, 15, Los Angeles — man, you have got 4 offices on the Pacific coast right on the water line—27 in New Orleans, Atlanta 14. You have Seattle, San Francisco——
Mr. Dixon. And Los Angeles.
Mr. Thomas. And Los Angeles.

Put pages 24 and 25 in the record.
(The pages follow:)

DIVISION OF DATA PROCESSING

This Division is responsible for all data processing in the Commission. In addition to preparing payroll, fiscal, and management reports, the Division processes and prepares data for the corporate financial reports program, compiles evidentiary data for use in law enforcement cases and economic data for the Commission's economic reports.

During fiscal years 1963 and 1964, the Commission conducted a study as to the feasibility of installing a low-cost card oriented computer in place of the inadequate EAM equipment then in use. It was concluded that the renting of additional EAM equipment and the hiring of additional personnel to operate the expanded EAM facilities, would increase costs by $20,000 a year, and the equipment still would not render the services demanded by management and the legal and economic staffs for timely and qualitative reports and analyses. The expanded workload and responsibilities of the Commission in the legal, economic, and management areas clearly pointed to the need for an ADP program within the Commission. During this period the Commission obtained the services of outside experts in the field of ADP to conduct a study that would give an impartial opinion as to the feasibility of entry by the Commission into the area of automatic data processing. This study was conducted by National Archives and Record Service of the General Services Administration and gave full approval of the Commission's study which had in itself justified the installation of the automatic data processing equipment.

It was ascertained during the studies that the present staff of the Division of Data Processing would be adequate, and no increase in personnel would be required to operate the computer system. As a result of these studies, the Bureau of the Budget gave full approval of the system installation.

In September 1963 a card oriented Burroughs B–280 computer system was completely installed which was operational by the Commission on October 1. As a result of the installation seven IBM calculating and accounting machines have been released. During fiscal year 1965 the Commission proposes to purchase this computer and requests that $114,000 be appropriated for this purpose. This will result in a net saving of $26,000 in machine rental costs in 1965, as follows:

Machine rental cost allocated in 1964 and continued in 1965	$55,000
1965 costs:	
Equipment retained on rental after release of EAM equipment (punches, verifiers, sorters, collators, etc.)	19,670
Computer rental, 3 months	9,330
Total	29,000
Net saving, 1965	26,000

In addition to the projected savings in personnel and equipment costs, it was clearly shown that it would be advantageous to the Government to purchase the computer 1 year after installation. The direct savings to the Government would amount to $41,000 per year beginning 2 years after purchase. This cost savings after 2 years of purchase is well below the cost-saving period of 5 to 7 years after purchase recognized by the Comptroller General of the United States. The chart and summaries that follow reflect the financial details as to the cost savings effected by the purchase of the computer system.

Appropriation of the $114,000 purchase price of the computer is actually only $88,517 more than the funds required if purchase is not authorized as follows:

Cash cost of computer (net) in October 1964 (fiscal year 1965)	$114,517
Reduction in 1965 equipment rental costs	26,000
Net additional funds	88,517

Mr. THOMAS. What does it all boil down to? I tried to figure it out from your other objects. I will read from your other objects.

Take a look at "Other objects" in conjunction with page 25. You will see he is spending this year $55,000. Look on page 135. Look at IBM rental and Xerox. You come up with $86,000. Xerox is a duplicating machine but it falls in the field of mechanical devices. We do not find anyplace in here where there is an offset expenditure for these funds. In addition to that, turn over to the last page under "Other objects." He wants about $114,000 to spend with the Burroughs Corp. for purchase of computers set forth in the justifications for the Office of the Comptroller. My next question is "What did you get for that $55,000 you are spending this year?" It looks like you are junking your machine and going to a different one.

Is that the situation?

Mr. GLENDENING. We have had IBM equipment on a rental basis. We have been paying some $47,000 or $48,000 a year rental for it. This past year——

Mr. THOMAS. What did you get for these $55,000?

Mr. GLENDENING. We are getting Burroughs computer equipment and in 1965 we will turn back about $26,000 rental on an annual basis——

Mr. THOMAS. Did Burroughs make both of your machines?

Mr. GLENDENING. No, sir.

Mr. THOMAS. You did not get any credit from Burroughs? What did you get for the $55,000 you spent with this crowd?

Mr. GLENDENING. The total rental for tabulating and computing equipment this year is $55,000.

Mr. THOMAS. Will you answer the question? Did you make a bad buy?

Mr. GLENDENING. No.

Mr. THOMAS. You did not make a bad buy—a bad rental?

Mr. GLENDENING. No. We have had the IBM card equipment on a lease basis for years. This is computer equipment. We have had tabulating equipment. This is a conversion to computer equipment which this year will save more than $5,000.

Mr. THOMAS. What was the $55,000 for?

Mr. GLENDENING. Machine rental costs this year.

Mr. THOMAS. What type of machine was it?

Mr. GLENDENING. It was leased tabulating equipment called EAM electric accounting machines.

Mr. THOMAS. It is outmoded, out of date? How long did you have it?

Mr. GLENDENING. We have had that equipment, well, we have tried to update it from time to time. We have had it on board for 15 years.

Mr. THOMAS. How much rent have you paid on it? You have been paying rent on it for 15 years. You should have bought it 14 years ago.

Mr. GLENDENING. We have been paying machine rental. I do not believe the purchase of this type of equipment is a good investment.

Mr. THOMAS. You would save $200,000 or $300,000, would you not?

Mr. GLENDENING. It was only 1952 or later that the courts forced IBM to sell their equipment. Prior to that time it was all rental.

Mr. THOMAS. You couldn't have bought it from anybody else?

Mr. GLENDENING. We couldn't have bought it from anybody else.

Mr. THOMAS. We are wondering why you did not take them over the hurdles. Instead of that you were nice, meek, docile, and paid them all of these large sums of money. You never did go after them. You knew better than anybody that you were stretched over a barrel there.

Mr. DIXON. Mr. Chairman, I was not there then and neither was anybody else here.

Mr. THOMAS. That answers the question.

Mr. DIXON. I wanted to tell you that I started asking that question and after about six surveys we bought the thing.

Mr. THOMAS. That is the best answer I can imagine.

COMPUTER PURCHASE

Tell us about this $114,000. Are you satisfied you are getting the right machine? You are buying this.

Mr. GLENDENING. This is an outright purchase, yes, sir.

Mr. THOWAS. You are not getting a white elephant?

Mr. GLENDENING. No, sir. This is the best equipment. We have it installed on rental this year. We want to buy it the first of the year.

Mr. THOMAS. You know you are getting your money's worth?

Mr. GLENDENING. Yes, sir.

Mr. THOMAS. We are urging all of your friends——

Mr. GLENDENING. If you will look on page 26——

Mr. THOMAS. Let me finish. We have looked at that page.

We are urging our friends to go on and go into this field. We think it is a big saving but we caution you to be sure and do not get a white elephant. Know what you are buying. We have seen some of our friends who will go out and buy one a little hurriedly and wake up 6 months from now and find it is not what they need.

Mr. DIXON. Mr. Chairman, the Budget Bureau has outstanding orders where this has to be proven. We had to prove this. We had a bunch of experts from the Archives come in there and make this study and approve it.

(Discussion off the record.)

COMPUTER MAINTENANCE CONTRACT

Mr. EVINS. Do you have a repair contract after you buy these outright?

Mr. GLENDENING. A maintenance contract.

Mr. EVINS. How much is this? You buy the machine outright and then put the manufacturer on the payroll.

Mr. GLENDENING. No, sir.

Mr. EVINS. How much do you pay them to come in and brush it up?

Mr. GLENDENING. We pay a sliding scale depending on how old the equipment is. It goes up a little. It runs a couple of thousand a year.

Mr. EVINS. That is what I do not like. You buy the equipment from them and then they come in and oil it a little bit. They are the same as though they were on the payroll.

Mr. GLENDENING. They are on call 24 hours a day, literally.

Mr. EVINS. Can't you get the service free from them?

Mr. DIXON. You don't have to do it. Where else would you go to get it repaired?

Mr. EVINS. Your colleague calls it a time sale here.

Mr. THOMAS. There are a lot of good repairmen around.

Mr. GLENDENING. We do not have to buy a repair contract. We could pay them probably $25 an hour down there on an hourly rate.

Mr. EVINS. Do you have to buy the grease and the oil and brushes?

Mr. GLENDENING. They take care of all that.

Mr. DIXON. That is what usually happens when a man has a patent on a thing. In America you get a patent and it is yours.

Mr. THOMAS. Let's spell this out. This is a nice table on page 28. It breaks down the $114,000 and gives you a little more information on it.

Mr. Evins, you will like that because it has some rental money in it; $3,835 per month. That is not cheap rental; it is?

Mr. GLENDENING. We get a credit out of that.

OFFICE OF THE SECRETARY

Mr. THOMAS. Put page 30 in the record.

(The page follows:)

Office of the Secretary

	Allotment, fiscal year 1964		Requested, fiscal year 1965		Increase, fiscal year 1965	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Secretary	10	$92,500	10	$95,000	----	$2,500
Legal and public records	38	208,500	38	215,500	----	7,000
Total personal services	48	301,000	48	310,500	----	9,500
Travel	----	500	----	1,000	----	500
Total	48	301,500	48	311,500	----	10,000

Mr. BOLAND. I do not know how the Secretary gets along with all of these responsibilities. He certainly has an awful lot of work to do. He does it very well, let me say.

Mr. DIXON. I think he does, too.

Mr. THOMAS (reading):

The Secretary and his immediate office receive and handle mail on all phases of the Commission's work. He signs all orders and certain other official papers. He also is responsible for liaison with the Congress and Government agencies and for decisions on informal cases not submitted to the Commission.

The Assistant Secretary for Minutes takes the minutes of, and records the executive meetings of the Commission, prepares directives for the signature of the Secretary, and keeps the docket of pending matters before the Commission.

Additional funds of $2,500 are required for pay-raise costs. Restoration of $500 in travel funds is also requested.

Here is "Legal and public records." Can't you reduce your housekeeping activities? This is not all your housekeeping activities by any means?

Turn back to table 9. Can't you reduce that and put these people in Antimonopoly?

What page is your box chart on?
Mr. DIXON. On page 138, the last page.
Mr. THOMAS. Can't we reduce that?
Mr. GLENDENING. No, sir.

COMMISSION ORGANIZATION

Mr. THOMAS. Look at page 138, gentlemen. Here is a pretty good breakdown of the activities. Here is your hearing examiner, General Counsel, Executive Director, Office of the Comptroller, Office of the Secretary, Bureau of Restraint, et cetera. Then you have your field offices and everything else.

The Secretary has 51, Comptroller, 29. I thought it was 30.

The Executive Director has 82.

Mr. DIXON. Mr. Chairman, I have people marching back and forth through those places, and every time I think I find somebody who is not doing something down there, I find out he is overworked.

You know we are fundamentally a law office, a law shop. We have professional personnel and then supporting clerical.

Mr. THOMAS. What part of your staff is lawyers? At least a fourth or fifth of them or more?

Mr. DIXON. More than that. We have about 500 lawyers.

Mr. EVINS. 50 percent.

Mr. THOMAS. Half of your staff in each of your Bureaus is a lawyer.

Mr. DIXON. Supporting the Bureau of Restraint of Trade are accountants. The medical scientific group supports the deceptive side. Every time you allow us to grow, we cause more problems in the Secretary's Office. The distinguished Congressman from Tennessee was our Secretary once.

Mr. EVINS. There used to be an Executive Secretary, Comptroller, and Director as all one. Now you have three separate positions.

Mr. DIXON. This is a trick that the Republicans did and left me.

Mr. THOMAS. You mean that happened when you weren't there?

Mr. DIXON. That is right.

Mr. THOMAS. Mr. Evins, is that a slight amount of featherbedding?

Mr. JONAS. You might have been better off if you had followed some of the other examples.

Mr. BOLAND. Actually this works better this way. When was this reorganized into the three levels?

Mr. GLENDENING. At the time of the Republican reorganization in 1954.

Mr. BOLAND. I thought it was a pretty good reorganization.

Mr. DIXON. I continued it this way. I thought it made sense, sir.

Mr. EVINS. Couldn't you put all of this under Mr. Shea, with one secretary and let him run the whole thing?

Mr. THOMAS. Each one of them has a main assistant.

Mr. JONAS. Don't you know the general rule, every time an agency reorganizes it costs more money and adds personnel?

Mr. THOMAS. The costs always go up.

COST OF ADMINISTRATION

Mr. JONAS. If I may make an observation, Mr. Chairman, to lay all jokes aside, I do not believe I know of any agency in the Govern-

ment—and we look at over 20 budgets in here—that has as high a percentage of personnel engaged in housekeeping and executive direction as yours. I cannot see why you would need to have 15 or 18 percent of your people engaged in executive direction.

Mr. DIXON. Actually we do not. Maybe I could move some of these things around and they would fit a little better but primarily under my Executive Director are the General Services, Personnel, the Information Office.

I think the Comptroller should direct the data processing activity because basically the information must come from all the bureaus. I thought it well to have it that way. My secretary is the clerk of the court, plus the liaison responsibilities that he carries on. There is a very small amount there. We have less than 10 percent in this category. I think, Mr. Congressman, that we would look pretty good by comparison but I might be shocked.

Mr. EVINS. Mr. Chairman, I look around and see a lot of old friends and very familiar faces and operations here.

OFFICE OF THE GENERAL COUNSEL

I believe we will turn to the next division, General Counsel's Office. We will place in the record the table on page 33.

(The page follows:)

Office of the General Counsel

	Allotment, fiscal year 1964		Requested, fiscal year 1965		Increase, fiscal year 1965	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of General Counsel	14	$100,000	14	$102,500	----------	$2,500
Division of Appeals	29	330,000	29	350,500	----------	20,500
Division of Consent Orders	6	85,000	6	87,500	----------	2,500
Division of Legislation	4	42,000	4	43,000	----------	1,000
Division of Export Trade	2	22,000	2	23,000	----------	1,000
Total, personal services	55	579,000	55	606,500	----------	27,500
Travel	----------	9,000	----------	13,000	----------	4,000
Total	55	588,000	55	619,500	----------	31,500

Mr. EVINS. You have 55 positions and no more requested for next year.

Place in the record pages 34 through 38 showing some of the work of the Office of General Counsel.

(The pages follow:)

OFFICE OF THE GENERAL COUNSEL

As the Commissioner's chief law officer, the General Counsel is principal legal adviser to the Commission and its staff. His office:

Handles the preparation of briefs and oral arguments before the courts of appeals taken from decisions of the Commission.

Collaborates with the Office of the Solicitor General in preparing and presenting Commission cases before the U.S. Supreme Court.

Handles matters before U.S. district courts concerning enforcement of Commission supenas and seeking injunctions.

Prepares opinions on matters of law for the Commission and the staff.

Analyses new legislation, prepares the Commission's reports thereon and represents the Commission before congressional committees.

Supervises and directs all functions of the Commission in operation of the Webb-Pomerene (Export Trade) Act of 1918.

Handles the negotiation of consent orders.

Handles cancellation proceedings of trademarks under the Lanham Trade-Mark Act of 1946.

Advises the Chairman of the Commission on clearance of voluntary industry agreements sponsored by other agencies in carrying out the Defense Production Act and the Small Business Act of 1953, as amended.

Passes upon trade practice rules, trade practice guides, and trade regulation rules.

Examines from the standpoint of enforcibility investigational demands for access, demands for special reports and subpenas duces tecum.

Prepares legal manuals and studies for staff use.

The increase in the work of the Appellate Division and in the field of legislative activity which has occurred during the recently past fiscal years is expected to continue at an accelerated rate during fiscal 1965. The increased legal enforcement activity of the Commission, the initiation of industrywide type investigations, and the greatly expanded use of demands for special reports and investigational subpenas, enforcible in the courts, will result in a material increase in the work of this Office in the courts.

The recent greater congressional interest in trade regulation, relating both to trade restraints and to deceptive practices, has resulted in an increase in legislative proposals.

The Legal Research and Reporting Section, located in the Office of the General Counsel, is responsible for the preparation and publication of the volumes of "Federal Trade Commission Decisions" which presently number 58. It also compiles, prepares, and publishes the "Statutes and Court Decisions Relating to the Commission." The latter covers not only court decisions to which the Commission was a party but also court decisions to which the Commission was not a party but which construe statutes administered by the Commission. The section likewise prepares the headnotes or syllabuses for the decisions of the Commission as they are published in the Federal Register.

The Commission's expanded program has greatly enlarged this work of the section and because of lack of additional staff, the work has fallen much in arrears.

Besides producing monthly the interoffice reporter of cases in trade regulation and antitrust fields, the section has the further responsibility of preparing and maintaining the cumulative legal digest of Federal Trade Commission decisions. This work is of major importance because of its need by the trial and appellate staffs of the Commission, also because it constitutes source material for the guidance of business itself. Its educational value for the assistance of consumer groups is large.

In spite of the increased workload and responsibility and critical shortage of manpower no new employees are requested for operations in the Office of General Counsel. The total increase of $31,500 requested will provide only $6,000 restoration of 1964 reductions in personal services, $16,500 for required pay raise costs, $5,000 for attorney promotions and a restoration of $4,000 in travel funds.

DIVISION OF APPEALS

The Division's principal function is to represent the Commission in court. It does so both directly and in participation with the Office of the Solicitor General in matters reaching the Supreme Court, and with offices of the U.S. attorneys in certain other court cases affecting the Commission. It also is called upon to render advice to the Commission and the staff and to assist in preparing proposed reports to the Congress and the Bureau of the Budget.

Workload, fiscal 1963

During fiscal 1963 the Division handled 127 cases, an increase of 41 over the previous year. It completed litigation in 57 cases, 16 of which were restraint-of-trade matters, 16 involved deceptive business practices, 8 concerned the Commission's subpena powers, 13 were suits for injunction or declaratory judgment brought against the Commission, 2 concerned the enforcement of Commission cease-and-desist orders, 1 was a criminal contempt proceeding, and 1 case involved a petition by the Commission to obtain access to evidence adduced before a grand jury.

The Division represented the Commission in 10 of the 11 U.S. courts of appeals, and in 11 U.S. district courts. It prepared and filed 29 briefs and memorandums and assisted in the preparation of 26 other briefs filed on the Commission's behalf by the Department of Justice. Twenty-nine arguments were made by the Division staff and it assisted in the presentation of 11 others by the Department of Justice. In addition, the Division was involved in 8 proceedings to obtain court orders enforcing Commission subpenas, initiated 1 prosecution for criminal contempt, and prepared and filed approximately 225 other court papers.

Current workload

The workload of the Division is variable, and since most of it results from actions initiated by other parties, the timing is determined by factors over which it has little control. As in each of the recent prior fiscal years, the load in fiscal 1963 was heavier than in the previous year, and reached a new high. There was a maximum of 19 attorneys on the staff to handle the work, and as a result much night and weekend overtime was needed.

At the beginning of fiscal 1964 the workload included 70 pending court cases, an increase of 14 over the previous year. These included 57 in courts of appeals and 13 in district courts, consisting of 39 restraint of trade, and 14 deceptive practice cases, 12 suits for injunctive or other relief against the Commission, 1 suit by the Commission to compel compliance with an order requiring a special statistical report, 1 criminal contempt proceeding, 1 subpena enforcement action, 1 civil penalty proceeding, and 1 suit by the Commission for a temporary injunction under section 13(a) of the Federal Trade Commission Act.

They included *Luria Brothers and Company*, docket 6156, with 17,000 pages of transcript and 1,300 exhibits; *Union Carbide*, docket 6826, with 11,800 pages of transcript and over 2,100 exhibits; *Firestone Tire & Rubber Co.*, docket 6487, with 8,000 pages of transcript and 700 exhibits; *Goodyear Tire & Rubber Co.*, docket 6486, with 5,500 pages of transcript and 500 exhibits; *The B. F. Goodrich Company*, docket 6485, with 4,500 pages of transcript and 375 exhibits; *Foremost Dairies*, docket 6495, with 5,500 pages of transcript and 1,500 exhibits; *The Borden Company*, docket 7129, with 4,000 pages of transcript and 5,600 pages of exhibits; *Brown Shoe Company, Inc.*, docket 7606, with 2,600 pages of transcript and 500 exhibits.

Workload expected in fiscal 1965

Information of a type which in the past has proved to be a reliable basis for predicting the future workload of the Division indicates that there will be a further large increase in fiscal 1965, resulting from these factors:

1. The long established steady increase in the number of cases processed by the Commission, together with increases in the investigational and trial staffs, which forecast further increases in the amount of litigation before the Commission. Since a fairly constant proportion of respondents in routine cases seek appellate review of adverse decisions, their increase is followed by a proportionate increase in the Division's appellate work.

2. The Commission's increased use of compulsory processes to obtain information, and its emphasis upon their enforcement. The present volume of such work is more than enough to occupy the full time of one Division attorney.

3. The steadily increasing number of injunction and declaratory judgment suits brought against the Commission in U.S. district courts, collaterally attacking its interlocutory actions in investigations and formal procedings. During the past fiscal year the Division has had to devote the equivalent of the full time of two attorneys to defense against such attacks.

The expenditures of this office unquestionably will be increased, and already have been increased by the new provision, 28 U.S.C. 1361, which permits such suits against the Commission in U.S. district courts other than the U.S. District Court for the District of Columbia. Since the enactment of this provision, on November 5, 1962, suits have been filed against the Commission in U.S. district courts in Dayton, Ohio, and Beaumont, Tex., which have required additional time and travel.

4. The large number of "big cases" expected to be undergoing court review during fiscal 1965. These cases are distinguished by voluminous records, complex and vigorously disputed legal and factual issues, masses of economic data, conflicting expert opinions, novel questions of law, and great financial importance to the respondents. It is the Division's experience and it is naturally to be expected that, because of the last mentioned factor, almost every respondent will exhaust appellate review of any adverse decision, no litigation expense will be spared, and review will entail intensive study and reanalysis of the entire record and reargument of every factual conclusion and legal proposition.

WORKLOAD ASSIGNMENT

Mr. EVINS. I note the work of your Division of Consent Orders was formerly carried on by trial examiners. You have put this in the General Counsel's Office?

Mr. DIXON. We did that for the primary reason, that the Commissioners could stay in these negotiations and free the hearing examiners to do the formal caseload, which gave us much better results. My goodness, we get better control and better orders, continuity, and everything.

Mr. EVINS. How many cases do you have in district courts and how many in appellate courts?

Mr. DIXON. About 71. They are listed there in the Appellate Section.

There are 55 in the appellate courts and 25 in the district courts.

Mr. EVINS. What is the status of your merger casework? This is an area of great importance. We have emphasized this several years. Do you have a lot of merger cases?

Mr. DIXON. Yes, we have, sir. We are always constantly reevaluating them so that we are hopeful we are using our talents where it is more in the public interest. We can keep so many of them alive. We are always behind in this area.

Mr. EVINS. If you took this work out of the Office of Trial Examiners the trial examiners would have less work.

Mr. DIXON. They are ready, sir. They do have less work but where we had a lag of 2 or 3 years to finish a 4- or 5-day hearing, now we are getting hearings completed, all the way to the Commission, within a year. We have killed much of the lag. The thing that President Kennedy talked about, regulatory lag, we pretty well have under control.

Mr. EVINS. I notice on page 41 you say:

> As of June 1963, there were 3,064 investigations pending in your operating bureaus. This represents an increase of 6.6 percent over the previous years.

You have told us about the cases in the court. What about the Division of litigation?

Mr. DIXON. The Division of Legislation?

Mr. EVINS. That is one of the amendments on the Hill?

Mr. DIXON. Yes, sir; we have an Assistant General Counsel that assists us in the preparation of our views on all pending legislation.

Mr. EVINS. Do you really have much to do in the way of the Trade Agreement Act? Do you really have much work to do in that Division?

Mr. DIXON. We do not at the current time, sir. We have a chief in charge of this thing. We have centered it because we only have 30-some-odd associations registered in the whole history of this act, but with this increased activity that is taking place in Europe we do not know which way this is going. As you know, there have been studies—the White House Conference on Export Trade that we participated in and I have been going to Europe at the request of the President and the Secretary of State twice a year, trying to stay abreast of the EEC and the OECD, but what is going to happen in this field, I cannot tell you.

HEARING EXAMINERS

Mr. EVINS. We will turn to hearing examiners.

We will place in the record pages 46, 47, and 48.

(The pages follow:)

Hearing examiners

	Allotment, fiscal year 1964		Requested, fiscal year 1965		Increase, fiscal year 1965	
	Positions	Amount	Positions	Amount	Positions	Amount
Personal services	39	$481,000	39	$492,000	----	$11,000
Travel	----	20,000	----	35,000	----	15,000
Total	39	501,000	39	527,000	----	26,000

HEARING EXAMINERS

Hearing examiners have complete charge of cases from the time the Commission issues its complaint until the initial decision is rendered. It is the duty of the examiners to hold pretrial conferences, conduct hearings, rule upon offers of proof, admissibility of evidence, and all procedural and other interlocutory motions; and make and file initial decisions in each proceeding.

The Commission's Rules of Practice have resulted in acceleration of trials, reduced the number of case assignments per hearing examiner and provided him the opportunity to hold consecutive hearings and continue to final disposition of the cases.

No increase in staff is requested in fiscal year 1965. However, an additional $11,000 is requested to provide for increased pay costs and $15,000 for restoration in travel funds.

Hearing examiners—Personnel as of Jan. 5, 1964

	Total	Attorneys	Clerical
Professional:			
GS-17	1	1	----
GS-16	6	6	----
GS-15	15	15	----
Stenographic, clerical, etc.	18	----	18
Total	40	22	18

Total annual salaries $488,245

Mr. EVINS. Here, again, I emphasize that you had 39 allotted positions and you are requesting 39.

You just testified you have taken some of the work away from the hearing examiners and transferred it to the Legal or Trial Division.

Mr. DIXON. There are 22 hearing examiners.

Mr. EVINS. You have 22 hearing examiners?

Mr. DIXON. That is correct, sir.

Mr. EVINS. How busy are they kept? Are they up with their dockets?

Mr. DIXON. Mr. Evins, our docketis becoming more current. Some of the older, more complicated cases still remain in spite of our tightened rules, which occasionally require extensions of time. However, as a general rule our hearing examiners are today in a position so that when a case goes to formal litigation it can be readily put on one of the examiners' dockets and once it gets there he is obligated to finish it completely.

Mr. EVINS. Who draws consent orders; hearing examiners?

Mr. DIXON. This is drawn in the operating bureau at the time we draw and send out a complaint. Going with that complaint is a proposed order. If the negotiations take place, they take place before this Consent Order Division, which is under our General Counsel, by and between the Commission's Counsel and the outside counsel. Then it is reported to us.

The Commission itself determines yes or no.

Mr. EVINS. Are there fewer assignments to hearing examiners today than a year ago?

Mr. DIXON. By all means, because we are settling more and more cases and the only thing left to them, Mr. Evins, are the litigable cases.

Mr. EVINS. You are asking for $11,000 to provide for pay increases in this Division, a $15,000 increase for travel funds. There is less assignment and less work.

Mr. DIXON. We had to curtail their travel from now in to July; we have had to be very careful with our money or else we would have to fire someone.

Mr. THOMAS. Give us a little bird's-eye view of the workload in there.

You have 22 trial examiners and 18 secretaries. What is the workload? Where is your sheet on that? It ought to be in the justification but it isn't.

Mr. DIXON. My chief hearing examiner——

Mr. GLENDENING. There are about 120 cases in litigation at the moment assigned to the hearing examiners.

Mr. THOMAS. How many cases each did your hearing examiners finish last year? Hearing examiners are indispensable. They are high grade men. Their civil service status is set by the Civil Service Commission. This group has played some favorable part in getting them upgraded. That was a couple of years ago. How many cases did they dispose of last year?

Mr. DIXON. I am remiss for not bringing it. I will send it to you. I get a monthly report on the status of where they are. You take a merger case that has lasted 5 years——

Mr. THOMAS. The secretary is overworked with those 45 people. You couldn't get that information together to put it in this budget.

Mr. DIXON. That is my fault. I have it on my desk. My chief hearing examiner is in the hospital. He would have given it to you today.

Mr. THOMAS. It ought to be in the budget.

Mr. DIXON. We will see that it is furnished.

(The information supplied follows:)

Office of Hearing Examiners disposition of cases

Contested cases	104
Consent settlements	10
Other disposition	14
Fiscal year 1963 total dispositions	128

BUREAU OF RESTRAINT OF TRADE

Mr. THOMAS. You have 202 people in this Bureau in 1964. You are asking for 199, a reduction of 3, but an increase in funds from $2,070,000 to $2,173,000; $103,000 increase. Why is this necessary?

Mr. DIXON. This would be to restore the reduction of funds for travel required this year and the restoration of funds for personal services that were necessarily cut this year. Also the additional cost of the pay raise in fiscal 1965.

Mr. EVINS. Division of Mergers goes up $117,000, Division of Restraint of Trade, $16,000, Division of Discriminatory Practices, up $24,000 and your compliance is up $16,000.

We have less personnel but the appropriations go up.

Mr. DIXON. That is correct, sir.

Mr. EVINS. Place in the record the text, pages 49 through the middle of page 53.

(The pages follow:)

Bureau of Restraint of Trade

	Allotment, fiscal year 1964		Requested, fiscal year 1965		Increase, fiscal year 1965	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Director	46	$239,000	46	$242,000	.....	$3,000
Division of Mergers	32	346,000	32	363,000	.....	17,000
Division General Trade Restraints	31	333,000	28	349,000	−3	16,000
Division Discriminatory Practices	43	540,000	43	564,000	.....	24,000
Division of Compliance	33	335,000	33	351,000	.....	16,000
Division of Accounting	17	155,000	17	161,000	.....	6,000
Total personal services	202	1,948,000	199	2,030,000	−3	82,000
Travel	.....	98,000	.....	108,000	.....	10,000
Other expenses	.....	24,000	.....	35,000	.....	11,000
Total	202	2,070,000	199	2,173,000	−3	103,000

BUREAU OF RESTRAINT OF TRADE

This Bureau has the responsibility for all preliminary investigational activity in the antimonopoly field which includes general trade restraints under section 5 of the Federal Trade Commission Act and violations of sections 2, 3, 7, and 8 of the Clayton Act. All correspondence relating to these matters and all preliminary applications for complaint are received and processed by the Bureau. Decisions are made by this Bureau as to the matters which warrant investigation. Several techniques are used in conducting these investigations: (1) In some instances memorandums are forwarded to the Bureau of Field Operations outlining in detail the scope and area of investigations; (2) members of the staff of the Bureau of Restraint of Trade conduct field investigations for the purpose of interviewing and ascertaining the availability of prospective witnesses and obtaining documentary material; (3) they conduct investigations by informal questionnaires and correspondence; and (4) conduct investigations by the use of investigational hearings under the subpena power of section 9 of the Federal Trade Commission Act and the use of special reports under section 6(b) of that act.

As a result of the reorganization plan of July 1, 1961, this Bureau was also assigned the task of securing compliance with orders to cease and desist issued by the Commission. In this function, this Bureau passes upon reports of compliance filed initially and maintains surveillance over final orders for the purpose of assuring the continuance of compliance, conducts or supervises investigations of violations of orders, prepares such cases for civil penalty actions and assists in the penalty proceedings.

On March 23, 1961, the Attorney General of the United States forwarded to the Commission 56 cases in which decrees had been obtained by the Department of Justice under the Sherman Act. The Commission was requested to conduct appropriate investigations and report thereon to the Attorney General. These judgments, in most instances, involved multiple corporate defendants of major size. Twenty-four of these investigations have been completed and reports

with findings and conclusions of law have been forwarded to the Department of Justice. Eleven additional investigations have been completed and are now under study and review. In the remaining 21 field investigations are in various stages of completion.

It is contemplated that the major portion of the work on the remaining cases will be completed during the fiscal year 1964 and as this occurs the trained and experienced manpower will be shifted to compliance work on FTC cases which have been almost completely neglected during the past years. This neglect has not been by choice but by necessity.

The Division of Compliance, Bureau of Restraint of Trade, is faced with a staggering workload. Over 1,200 orders in the restraint-of-trade field have been issued which cover every conceivable type of trade restraint and antitrust violation and which transcend practically every industry and business of significance in our economy. These orders have been procured at tremendous expense to the taxpayer and unless they are militantly and periodically spot checked and enforced, where appropriate, the multimillion dollar cost which the public has had to withstand in the procurement of these orders is a total waste. This Division has an unmanageable workload in excess of 40 active cases assigned to any given attorney. The volume of complaints and inquiries received on an almost daily basis with respect to outstanding orders would in and of themselves practically consume the time of the presently available manpower in this area. Superimposed on this, however, is the demanding task of reviewing complex and technical reports of compliance, writing advisory opinions, conferring with interested parties and their counsel, the initiation and review of field investigations, the conduct of investigational hearings, and the preparation and trial of civil penalty cases. The tragic waste and inefficiency of having an undermanned and ineffective Compliance Division must be eliminated by the reassignment of attorneys experienced in this highly technical field as fast as the work on Attorney General cases is completed.

The Bureau is continually faced with the problem of policing outstanding orders directed against trade restraints. Violations of antitrust orders are not readily apparent to competitors and rarely discernible to consumers. As a result, investigating compliance with orders is a task which falls squarely upon the Bureau itself. Policing of such orders furthermore is a formidable task since such orders cover extremely complex pricing and distribution practices generally by multiple respondents. Consequently, the processing of reports of compliance is the key factor in insuring that respondents subject to orders eliminate from their methods of operation those acts and practices prohibited by the Commission's orders. The procurement and processing of compliance reports is a continual process which insures that future business methods will be consistent with the provisions of the orders.

In addition to directing more vigorous compliance measures with respect to matters involving possible violation of the Clayton Act as amended and restraint-of-trade matters under section 5 of the Federal Trade Commission Act, the Commission's "Procedure and Rules of Practice," effective August 1, 1963, provide for (1) advice to each respondent whether actions as set forth constitute compliance with the Commission's order and (2) that any respondent subject to a Commission order may request advice from the Commission as to whether a proposed course of action, if pursued by it, will constitute compliance with such order.

Accordingly, the Commission will be required to examine all of the facts and conduct investigations, where appropriate, of the activities of the respondents under order.

WORKLOAD, FISCAL YEAR 1963–64

During 1963, 1,309 applications for complaint were received. This was a reduction of about 10 percent from the previous year, but was substantially in excess of other recent years.

A concerted effort to reduce the backlog produced about a 10-percent reduction in pending investigations. These were brought down from a high of 1,694 to 1,531 at the close of the fiscal year.

The number of formal complaints issued by the Commission is increasing. Such increase is related to the policy of striking at violations of law on an industrywide basis, after investigation discloses that large numbers of industry members are following the identical practices.

A few of the principal industries which this Bureau has investigated, and on the basis of such investigation, will keep under close scrutiny, on an industry-

wide basis include the following: (1) processors and retail chain grocery distributors of fluid milk; (2) manufacturers of men's, women's, and children's wearing apparel; (3) the buying practices of chain department stores; (4) the practices in the gasoline industry; and (5) the trends and practices in the cement industry.

The Bureau began investigations of milk price wars as a result of numerous complaints from various sections of the country that milk was being used as a "loss leader" by grocery chains and that the price of milk was temporarily decreased for the purpose of driving out the competition of the small producer-distributors. Field investigations were made and were followed by investigational hearings in numerous metropolitan areas throughout the country. The results of the milk price war investigations are currently being analyzed by the staff. A continuing surveillance of milk price structures is maintained and investigations in the critical areas will be subjected to immediate investigation to protect the public interest.

In addition to the milk price wars, the Bureau has been active in proscribing price discriminatory practices by certain of the major milk companies. As a result, the Commission issued cease and desist orders in *Foremost Dairies, Inc.*, docket No. 7475, in which Foremost was prohibited from discriminating in the price of fluid milk to favored customers and against the *Borden Company*, docket No. 7129, in which Borden was prohibited from discriminating in price between purchasers of its Borden label and private label brand evaporated milk. The attempted changes in the milk industry, by accretions of markets through mergers and acquisitions, as a result of an industrywide approach, have been slowed down. The Bureau's responsibility in the enforcement of section 7 of the Clayton Act continues in its rightful emphasis.

In the milk industry, which has experienced numerous acquisitions, the Commission had previously issued complaints against four of the major companies. During the fiscal year 1962, the case against *Foremost Dairies*, resulted in an order of divestiture. In fiscal year 1963 after completion of the Commission's case-in-chief in *National Dairy Products Corporation*, the respondent entered into a consent order settlement. In addition to divestiture, the orders prohibit for a period of 10 years the making of any acquisition without prior approval of the Commission. The case against *Beatrice Foods Co.*, the trial of which was finished in fiscal year 1963, is awaiting the hearing examiner's decision. In the last of the four cases, the *Borden Company*, the Commission completed its case-in-chief during fiscal year 1963. Thus, after considerable expenditure of effort by the Bureau, an industrywide program is approaching its hoped-for results and completion.

During the fiscal year 1963 an industrywide program involving the cement industry and industries using cement was under development. The Commission has already found reason to believe that a substantial number of companies in this industry have engaged in practices violative of the law. The hearing examiner in *Permanente Cement Co., et al.*, issued an order of divestiture on November 30, 1963. This case challenged the acquisition by Permanente of another cement company and of a ready-mix concrete and aggregate business. Further, in this industry, the Commission issued a formal complaint against *Diamond Alkali Co.*, which concerned the merger of two cement companies. In still another case, the Commission issued its formal complaint against *Lone Star Cement Corp.*, charging illegal acquisitions in the cement industry. An earlier case against *Martin-Marietta*, was settled by consent agreement with an order of divestiture. Other investigations in this industry are underway and are being completed as rapidly as possible. This industry, as well as others, continues to receive close scrutiny. There is substantial basis for consideration of industry programs of this type in that effective relief may be obtained. More importantly, there is reason to believe that industry programs of this type may effectively stop merger trends and unlawful price discriminations.

The Bureau has pending at various stages of litigation some 10 complaints involving, with one exception, pricing practices of major oil companies. These are as follows:

(*a*) Sun Oil Co. (Jacksonville, Fla.), (*b*) Pure Oil Co., (*c*) Texaco, Inc., (*d*) Humble Oil & Refining Co., (*e*) American Oil Co., (*f*) Shell Oil Co., (*g*) Atlantic Refining Co., (*h*) Sun Oil Co. (Norfolk, Va.), (*i*) Standard Oil Co. (Indiana), (*j*) Crown Central Petroleum Corp.

COMPLAINTS

Mr. EVINS. We will insert the two tables at the bottom of page 54 on complaints and orders.

(The page follows:)

Although there is a slight increase in personnel in the current period 1960 through 1963, the increase in the number of complaints and orders issued is far greater in proportion than the increase in personnel. In fact, the activities by the staff in the restraint-of-trade field for the past several years have been tremendous as indicated by the number of complaints and orders issued during this period as follows:

	1963	1962	1961
COMPLAINTS			
Total [1]	230	49	121
FTC Act, section 5	10	8	18
Clayton Act, sec. 2	219	41	100
Clayton Act, sec. 3	0	0	2
Clayton Act, sec. 7	2	1	5
Clayton Act, sec. 8	0	0	1
ORDERS			
Total [1]	261	91	103
FTC Act, sec. 5	10	9	10
Clayton Act, sec. 2	250	74	91
Clayton Act, sec. 3		1	3
Clayton Act, sec. 7	5	8	2
Calyton Act, sec. 8			

[1] 2 or more acts may be included in 1 complaint or order.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. EVINS. This is interesting on page 56 [reading:]

During the course of the year, 943 acquisitions and mergers were given a preliminary examination by the Division of Mergers in cooperation with the Bureau of Economics. Such examinations consist principally of analyzing published financial, economic, and industrial data.

Mr. JONAS. Before you get too far away from the question, I asked the chairman, will you yield?

Mr. EVINS. Yes.

Mr. JONAS. Off the record.

(Discussion off the record.)

DIVISION OF GENERAL TRADE RESTRAINTS

Mr. EVINS. On Division of General Trade Restraints we will place in the record pages 57 and 58.

(The pages follow:)

DIVISION OF GENERAL TRADE RESTRAINTS

This Division has the responsibility for actions to be taken for all inquiries and applications for complaints which pertain to possible illegal restraints of trade under section 5 of the Federal Trade Commission Act. These duties have resulted in basic responsibility for investigation of said matters and the full responsibility for litigated matters evolving from the investigations.

The workload of this Division has increased substantially during the past year and is expected to continue in the future.

Current workload

One hundred and seventy investigations are now assigned to the Division for handling. Fifty-nine of these investigations are now undergoing review by the staff or awaiting final Commission action. The remaining 108 investigations have been forwarded to field offices for investigation.

It is thus apparent that at the beginning of fiscal year 1965 the Division of General Trade Restraints will have a substantially larger number of outstanding complaints. Whereas 10 complaints were issued in fiscal year 1963, there were at the close of that period 6 new complaints awaiting issuance. With the increase in number of investigations being returned from the field offices in fiscal year 1964 and with new investigations being initiated the caseload of investigations and pending complaints should be greatly increased during fiscal year 1964 and again in fiscal year 1965. It is anticipated that there will be 60 to 65 complaints being prosecuted by the Division in fiscal year 1965.

Increases requested fiscal 1965

Funds allocated to this Division for personal services were reduced by $30,000 in fiscal year 1964 and no restoration is requested in 1965, resulting in a reduction of three positions. However, the increased pay costs will require $9,000 and staff promotions $7,000, making a total of $16,000.

DIVISION OF DISCRIMINATORY PRACTICES

Mr. EVINS. On the Division of Discriminatory Practices, you talk about the workload of 1963 and 1964 and you say no increase in jobs in 1965 and an increase in funds of $24,000.

Mr. DIXON. We are loaded. This is one of our real prolific fields where we have a tremendous backlog.

Mr. EVINS. As to your workload which you have in 1963 and 1964, you say no increases in 1965.

Mr. DIXON. We asked for an increase from the Budget Bureau but did not receive it.

Mr. EVINS. We will place pages 59 through 61 into the record.

(The pages follow:)

DIVISION OF DISCRIMINATORY PRACTICES

The Division of Discriminatory Practices is responsible for the investigation and trial of cases involving violations of sections 2 and 3 of the Clayton Act, as amended, and cases brought under section 5 of the Federal Trade Commission Act against buyers for knowingly inducing and receiving discriminatory advertising and promotional allowances and services or facilities from suppliers.

The following are representative of some sections 2 and 5 (inducing and receiving discriminatory allowances) cases pending in various stages of litigation:

Moore Business Forms, Inc., the largest producer of business forms products in the United States, has been charged with discriminating in the prices charged to different purchasers of its products. It is alleged that unfavored customers of this concern are charged prices which exceed by 15 to 20 percent the prices charged to favored customers.

The following two complaints charging leading manufacturers of asphalt roofing materials with price discrimination were issued by the Commission:

In the first, it is alleged that the Lloyd A. Fry Roofing Co., a manufacturer of asphalt roofing and dry felt, has charged different prices to purchasers of its products of like grade and quality. These tactics have caused diversion of the business or substantial impairment of the profit of Fry's competitors. Net sales of this concern were $50,823,413 during 1958.

A related complaint has been filed against Celotex Corp., a manufacturer of building and insulating materials and one of the major producers of asphalt roofing products in the United States, with sales in excess of $10 million annually. In addition to charging that this concern has engaged in area price discrimination, the complaint alleges a violation of section 5 of the Federal Trade Commission Act.

Southern Bakeries Co., a concern with sales in 1958 of approximately $28 million, has been charged with granting discounts up to 10 percent from regular price to favored restaurant and food-serving customers and up to 8 percent from regular price to favored food-retailer customers, including large interstate chains.

Cannon Mills Co., whose sales exceeded $175 million in the year ending December 31, 1957, has allegedly discriminated in price between different purchasers of its products of like grade and quality.

In a recent complaint, National Dairy Products Corp., is charged with discriminating in price in the sale of jellies, preserves, and other products. The company's total sales of all products in 1960 were in excess of $1,000 million. The complaint alleged that National Dairy, through its Kraft Foods Division, sold jellies and preserves in four selected markets at a discount of 50 percent from the prices at which these products were sold throughout the country.

Furr's, Inc., a large retail grocery chain with stores located in Texas and New Mexico, having sales in excess of $90 million annually, is charged in a recent complaint with violation of section 5 of the Federal Trade Commission Act by knowingly inducing and receiving discriminatory promotional payments from some of its suppliers.

The Commission's policy of attacking violations on an industrywide basis continues to make substantial demands on the staff of this Division. No less than 16 attorneys, representing 40 percent of the available trial staff, are devoting full time to concentrated enforcement activities in industries involving (1) processors, and retail chainstore distributors of fluid milk; (2) manufacturers of men's, women's, and children's wearing apparel; (3) department stores and grocery chainstores; and (4) automotive replacement parts.

Workload fiscal year 1963

As a result of complaints from independent dairies and retailers of fluid milk throughout the country, investigational hearings were conducted in five large market areas. At these hearings, over 175 witnesses, representing dairies, retail grocery chains, and independent retailers, testified and presented documentary evidence concerning discriminatory pricing and the use of fluid milk as a "loss leader." In addition, field investigations concerning similar practices were conducted in 11 other areas.

As a result of extensive investigations and proceedings against discriminatory practices in the apparel industry, the Commission offered 248 manufacturers the opportunity to consent to a cease-and-desist order. Of this number, 163 manufacturers executed consent agreements which the Commission approved and orders prohibiting payment of discriminatory allowances in violation of section 2(d) have been issued. However, the effective dates of the orders have been postponed pending completion of investigations of 75 additional manufacturers. The manufacturers who refused to avail themselves of the consent order procedure will be the subject of formal proceedings.

In addition to their normal duties, the attorneys assigned to the wearing apparel cases have expended a considerable amount of time to advising, assisting, and processing compliance problems and reports submitted by the 163 consent manufacturers. Many of these manufacturers were without any clear conception of what constituted compliance with the law.

The magnitude of the caseload of the Division of Discriminatory Practices is reflected in the following statistical summary:

On June 30, 1963, there were pending in various states of investigation and review, 1,018 section 2 cases and 256 section 5 cases, involving charges of knowingly inducing and receiving discriminatory allowances by buyers.

During the fiscal year 1963, 76 section 2 cases were closed following investigation and review.

During fiscal year 1963, 219 section 2 complaints were issued as compared with 42 complaints issued in the previous year. This represents an increase of 421 percent. One section 5 complaints was issued charging a buyer with knowingly inducing and receiving discriminatory allowances.

In the fiscal year 1963, 249 section 2 cease-and-desist orders were issued, as compared with 74 similar orders issued in the previous year. This represents an increase of 236 percent.

Caseload for 1964

On July 1, 1963, there were pending in various stages of investigation or review, 1,018 section 2 cases and 256 section 5 cases involving inducing and receiving discriminatory allowances by buyers. A total of 90 section 2 cases

were pending in various stages of litigation. If the total caseload, consisting of 1,364 formal and informal cases, were equally divided among the 40 available attorneys, the average caseload per attorney would number 34 cases. This average is three to four times the caseload which an attorney can efficiently handle. The majority are obliged to and do put in many hours overtime, including Saturday, Sunday, and holidays, at home or at the office.

The attorneys, in addition to their normal duties relating to cases in investigation or litigation, handle a large volume of correspondence pertaining to applications for complaint and pending cases. It is estimated that during the year an excess of 4,500 correspondence matters were processed.

The length of time required to process a section 2 case, through investigation and trial, is frequently the cause of criticism by businessmen who seek relief from unlawful practices engaged in by competitors. Such criticism is understandable in view of the severe competitive disadvantage under which the law-abiding businessman must operate. When prompt relief is not forthcoming, the law-abiding businessman is confronted with two possible choices: (1) continued compliance with the law with resulting substantial business loss, or (2) adoption of the same illegal practices. If many businessmen in a given industry adopt the same practices, the Commission is then confronted with undertaking costly and time-consuming investigations and proceedings on an industrywide basis.

DIVISION OF COMPLIANCE

Mr. EVINS. Division of Compliance. The responsibilities of this Division encompass generally the insuring of compliance through procurement and processing of complete reports of compliance. We talked about this earlier. You propose to move into checking on compliance to more extensive degree in the next year than in the past.

Mr. DIXON. It would be wrong for me to leave any other impression other than to say to you that by the movement of these funds permanently over into here to do our work, that this is in some degree an increase. It is there, but we have been doing the work for somebody else. We want to keep on doing it but do it within our own responsibilities which we are not doing.

Mr. EVINS. You mention that the attorneys you had with the Department of Justice work are to be reassigned in compliance matters.

Mr. DIXON. That is correct, sir, in addition to the load I tried to describe on giving advice on outstanding orders.

Mr. EVINS. You could assign compliance matters in the Northwest Division and those in New Orleans, for instance, to another Division. You could use present personnel.

Mr. DIXON. This is what I want to do. Under good management practices, at any time when we are loaded here I can funnel these in and keep these people moving at full speed.

Mr. EVINS. How long would it take a man in New York to check on whether a company is complying with an order which was issued 5 years ago?

Mr. DIXON. It would depend on the type of order. In the case of price discrimination, not too long. Deceptive practices, not too long. But to check all producers, whether they are fixing prices, or the cement order of 1948——

Mr. EVINS. How many cases did you check on for the Department of Justice?

Mr. DIXON. Fifty-six, but many were more than one.

Mr. EVINS. How long did it take to check on those 56.

Mr. DIXON. This is the third year, sir.

Mr. EVINS. Those are extremely big and important cases.

Mr. DIXON. They were the important cases they had tried within the last 20 years and it cost literally millions of dollars to build the cases.

Mr. EVINS. After you have done that, have you not broken the back of this compliance checking work?

Mr. DIXON. For Justice we did this. I have a clipping I should show you. This shows you that there is a grand jury indicting a contractor's group in New Orleans. This came out of the money you gave us. This has been sitting there for years. We developed it. This is the grand jury indictment. Examples are coming like this.

Mr. EVINS. How many cases did you investigate for Justice?

Mr. DIXON. Fifty-six.

Mr. EVINS. One in New Orleans is in the courts. How many actions has Justice taken?

Mr. DIXON. I do not know, sir. They have written us letters on some. We found nothing on some. Of course, in those they did nothing. We made some reports of them. Others are in stages of study before going to the grand jury.

Mr. THOMAS. They ought to do their own investigation. Why all this lost motion? Let them do their own investigating. People who tried the case are best qualified to check. If you take it up, your judgment does not prevail, it is their judgment. Let us get rid of this and get it back to Justice. It makes sense, you know it, I know it.

BUREAU OF DECEPTIVE PRACTICES

Mr. EVINS. Bureau of Deceptive Practices. In 1964 you had a total of 124 employees in the Division, and for 1965 you are requesting 127 employees, an increase of 3, with an increase of $122,000. You again point out mandatory pay increases, staff promotions, and travel are the reasons for these increases.

Mr. DIXON. Three additional employees. That is where the three extra come in.

Mr. EVINS. Insert pages 69 through 73.

(The pages follow:)

Bureau of Deceptive Practices

	Allotment, fiscal year 1964		Requested, fiscal year 1965		Increase, fiscal year 1965	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Director	33	$195,000	33	$197,500	----	$2,500
Division of Food and Drug Advertising	29	270,000	31	296,000	2	26,000
Division of General Advertising	21	233,000	21	245,000	----	12,000
Division of General Practices	16	193,000	16	204,500	----	11,500
Division of Compliance	13	166,000	13	174,000	----	8,000
Division of Scientific Opinions	12	171,000	13	202,000	1	31,000
Total personal services	124	1,228,000	127	1,319,000	3	91,000
Travel	----	21,000	----	34,000	----	13,000
Other expenses	----	88,000	----	106,000	----	18,000
Total	124	1,337,000	127	1,459,000	3	122,000

Bureau of Deceptive Practices

The Bureau of Deceptive Practices performs the investigative, prosecutive, and compliance functions involved in the enforcement of sections 5 and 12 of the Federal Trade Commission Act, to prevent false advertising, misbranding, and other unfair methods of competition and unfair or deceptive acts or practices in commerce. The responsibility to prevent use of deceptive practices extends to all types of goods and services and all business concerns engaged in commerce, excepting those which by specific statute are regulated by other Federal agencies. The Bureau also has specific responsibility to prevent false advertising of goods, drugs, therapeutic devices and cosmetics and monitors radio, television, and printed advertising to detect false and misleading advertisements.

Consumers and small businessmen are protected from being injured by unfair and deceptive commercial practices.

The Bureau consists of the Office of the Director and five divisions: Division of Food and Drug Advertising, Division of General Advertising, Division of General Practices, Division of Scientific Opinions, and Divison of Compliance. The consumer relations representative of the Commission is in this Bureau.

The Bureau's work arises mainly from letters of complaint from members of the public who feel they have been deceived, or businessmen who are aggrieved by practices of their competitors. Many such matters originate through correspondence from Members of Congress, congressional committees, better business bureaus, trade associations, or other governmental agencies. Much of the Bureau's work arises from advertisements observed and set aside as questionable in the Bureau's continuing scrutiny of radio, television, and printed advertising.

Notwithstanding large additional areas of indicated consumer deception needing attention, backlogs of work, and the limited staff not able to achieve prompt and equitable corrective actions, especially in dealing with industrywide practices, requested increases in 1965 provide mainly for restoration of 1964 reductions, mandatory pay raise costs, staff promotions, travel, and other cost restorations and only three additional positions—two attorneys in the Division of Food and Drug Advertising and one medical officer in the Division of Scientific Opinions. The critical need for these new positions is heightened by the Commission's responsibilities and program concerning the advertising and labeling of cigarettes.

Increases requested for Bureau operations are summarized in the following table:

Personal services:	
Restoration of reductions in 1964	$17,000
Pay increase costs in 1965	31,000
Staff promotions	19,000
Increased positions—2 attorneys and 1 medical officer	24,000
Total personal services	91,000
Restoration of 1964 reduction in travel funds	13,000
Restoration of 1964 reduction for clinical testing, witness fees, and stenographic reporting	18,000
Total increase	122,000

Program for Fiscal Year 1964 and 1965

To prevent representations which, if false, could cause injury to the health or personal safety of the uses of the advertised product will be the No. 1 target of the Commission's deceptive practices program during the remainder of fiscal year 1964 and fiscal year 1965. Filching of money from the consumer's pocketbook through use of flagrant deception in the sale of products such as food, household equipment, home improvements, and other necessaries of life of special significance to low-income families and the aged, will be next in priority. National and regional advertising will be given close scrutiny since it affects larger numbers of the public. Flagrancy of practice and any past history of violation will be considered in allocating effort. Advertising or promotional practices which, through deception, divert trade from or otherwise injure small businessmen also will be given priority of attention. Projects now underway or planned to be pursued during this period include the following:

Health hazards of smoking cigarettes

Under its statutory authority and responsibility to prevent "unfair or deceptive acts or practices in commerce" the Commission has undertaken trade regulation rule proceedings in regard to the advertising and labeling of cigarettes. This action may result in requiring the cigarette industry to disclose the dangers to health risked by smokers. The Commission undertook this action because it has reason to believe that much current cigarette advertising may be unlawfully misrepresenting or concealing the health hazards of smoking cigarettes any may prevent or hinder large numbers of consumers from recognizing and appreciating the nature and extent of the substantial health hazard of cigarette smoking. This project is expected to require a massive effort by legal and scientific personnel of the Bureau of Deceptive Practices.

Arthritis, rheumatism, and pain relief drugs

Arthritis, rheumatism, and headache sufferers continue to be barraged with what are suspected to be grossly false and misleading advertisements as to efficacy of pain-relieving drugs. It would be difficult to estimate how much of the $360 million annually spent by consumers for such products is a waste, in the sense that the products do not provide the advertised benefits. The Commission desires to continue its aggressive program of testing and evaluating these products, to bring this type of advertising under control.

Air-purifier advertising

Filters offered to purify the air and thus remove germs and prevent disease are being investigated on an industrywide basis. This investigation is nearing completion, with determination soon to be made as to whether formal action will be undertaken; it is expected that such action would, if contested, extend into fiscal year 1965.

Hemorrhoid-product advertising

An industrywide investigation of advertising of hemorrhoid products is nearing completion, with decision soon to be made on whether formal action will be undertaken; this action probably would, if contested, extend into fiscal year 1965.

Food-supplement advertising

Quackery in the advertising of food supplements has reached mammoth proportions, with some $200 million of such products being sold annually. An industrywide project to curb such advertising is underway, with major litigation now in progress and additional cases of this type being investigated. The purpose is to prevent the offering of such products, especially mineral and vitamin preparations, with exaggerated claims of benefit to sufferers from nervousness, tiredness, and anemia.

Monitoring of advertising

The Commission will intensify its monitoring of advertising to detect unwarranted claims affecting the public health and safety, and advertising of questionable character involving economic deception, concentrating on advertisements of regional or national coverage. Ninety investigations were instituted from this source during fiscal year 1963, and 43 thus far in fiscal year 1964; in addition, advertisements observed in the survey were of inestimable help in large numbers of other investigations.

Safety of products

The Commission is becoming increasingly concerned with its role in protecting the public from undisclosed hazards in use of toys and other mechanical products. It is expected that a larger proportion of its casework will be in this area during the coming year. We have relied upon consumer complaints to apprise us of such dangers, as no inspection staff to detect potential violations has been provided.

Radio and television ratings

A considerable part of the staff continues to be involved on cases involving indicated misrepresentations as to reliability and meaning of radio and television ratings. These ratings to a considerable extent influence the types and quality of programs that will reach the public. This work will extend through fiscal year 1965.

Insurance advertising

With the Commission's jurisdiction over mail-order advertising of insurance having been clearly established, an increasing proportion of staff time must now be devoted to this work; and it is expected that this trend will continue through fiscal year 1965.

Home-improvement products

Homeowners and small businessmen continue to be the victims of widespread deception in their purchases of paints, roof coatings, storm windows, awnings, carports, patios, and other home repair and home improvement products. This type of action will continue to require large expenditures of staff time through fiscal year 1965.

Correspondence schools and vending machines

Exaggerated earnings claims and false offers of employment to lure the poor and the aged into buying correspondence courses or vending-machine routes are a continuing problem. Appreciable numbers of such cases are expected to be brought to completion in fiscal year 1965.

Quality, quantity, composition, and performance of products

Misrepresentations of the nature, quality, quantity, performance, or other characteristics of products, or the conditions of the offer, come to the attention of the Commission by the hundreds each year. We expect this to continue through fiscal year 1965. We will endeavor to deal with all such matters but only when they involve substantial use of the questioned practice in commerce and when it appears that substantial numbers of the public are likely to be deceived. As you know, the Commission's responsibility to prevent deception in the public interest extends, with few exceptions, to all goods and services sold in commerce.

Bureau of Textiles and Furs

Mr. Evins. Bureau of Textiles and Furs. The chart on page 95 shows you had 95 personnel last year, you want 120 next year, a 25 increase for textiles and furs.

Mr. Dixon. That is correct.

Mr. Evins. How long does it take to send an investigator out to check whether or not there is an apparent violation of the Wool Products Labeling Act?

Mr. Dixon. This is a constant thing. I tried to describe the location across the country where they are going at all levels of the industry—the manufacturer, the wholesaler, the retailer—seeing if the labels are properly attached and are descriptive, and investigating required invoicing procedures. If we pick up the information that indicates there is a violation, we will develop it up to the point where we have a complaint.

Mr. Thomas. I suggest you read the last two paragraphs into the record on page 100.

Mr. Evins (reading):

Only 40 cases were reopened to check on the respondents' compliance with Commission orders. Reports of routine inspections coming in from the Bureau's inspectors in the field frequently suggest the need for detailed compliance investigations. In some instances where reports are filed showing apparent compliance, a check should be made to ascertain actual compliance. In these two areas effective enforcement requires a substantial increase in activity.

Of the 135 compliance matters on hand at the close of fiscal 1963, 54 of them represent a backlog from the 141 cases which were pending at the time the Bureau was set up in July 1961. Though the backlog was reduced substantially during the year, most of the 54 cases are in the category of voluminous investigations which require detailed study and analysis. The limited staff of this Division has not been able to find the time necessary to effect such study and analysis.

Mr. THOMAS. It is a pretty small workload for 100 people.

Mr. EVINS. Forty cases.

Mr. JONAS. Fifty-four carried over from 1961.

Mr. DIXON. That is just some of the compliance matters needing attention.

Mr. THOMAS. I know, but it looks like a small workload. You only have 135 complaints. It looks to me like you are doing pretty well.

Mr. DIXON. 135 compliance matters, not complaints. We have only one man available for assignment to this work. We had more complaints than that.

Mr. THOMAS. That is only 135 that you have to take some positive action on. You point out something to the people and they come up with a reasonable answer for you.

Mr. DIXON. We are not talking about inspections, we are talking about after orders to cease and desist have been issued, checking back to see if that order has been lived up to.

Mr. EVINS. You want 8 personnel in the Division of Enforcement and 17 in the Division of Regulations. Who are they under?

Mr. DIXON. Mr. Stringer. These are 8 lawyers, 17 inspectors.

Mr. EVINS. We will place pages 95 through 100 and 102 and 105 in the record.

(The pages follow:)

Bureau of Textiles and Furs

	Allotment, fiscal year 1964		Requested, fiscal year 1965		Increase, fiscal year 1965	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Director	16	$117,000	16	$122,000	----	$5,000
Division of Enforcement	16	145,000	24	205,000	8	60,000
Division of Regulation	63	513,000	80	614,000	17	101,000
Total personal services	95	775,000	120	941,000	25	166,000
Travel	----	51,000	----	86,000	----	35,000
Other expenses	----	5,000	----	6,000	----	1,000
Total	95	831,000	120	1,033,000	25	202,000

BUREAU OF TEXTILES AND FURS

The Bureau is charged with the administration and enforcement of four separate and important pieces of consumer legislation; the Wool Products Labeling Act of 1939, the Fur Products Labeling Act of 1951, the Flammable Fabrics Act of 1953, and the Textile Fiber Products Identification Act of 1958.

The wool, fur, and textile acts each require affirmative labeling disclosures. The fur act further requires affirmative invoicing, while disclosures made in the advertising under the fur and textile acts are regulated. The Flammable Fabrics Act prohibits the introduction or movement in interstate commerce of dangerously flammable wearing apparel and fabrics intended for use therein.

Unlike other statutes administered by the Commission, compliance with the terms of these four acts must be continuously policed by the Bureau to assure that members of industry are living up to their requirements and consumers are afforded the protection intended by Congress. The task of administering the wool, textile, and fur acts is reflected by the tremendous size of the textile industry. Over 100 different industries are engaged in the manufacture of textile products subject to the provisions of these statutes. Each year the sales of textile products covered by the acts run into billions of dollars. Next to food and shelter, textile products, including wearing apparel and household furnishings, constitute the most important segment of our national economy.

Additionally, approximately 175,000 distributors of fur products are subject to the fur act.

At present, as for some years past, this country is importing tremendous quantities of wool and nonwool fabrics and garments. The foreign mills and manufacturers are not always cognizant of the labeling and invoicing requirements under our textile act, and, as a result, a constant check must be made of these products. Further, outside of the United States the generic names of fibers sometimes differ from those set forth in our laws and regulations. Since foreign manufacturers are outside the jurisdiction of the Federal Trade Commission, insofar as inspection of plants and records are concerned, this Bureau must work closely with the Bureau of Customs officials in an examination and sampling program of imported textile products. As a result of this cooperation the entries of many misbranded items have been stopped and corrected before the merchandise entered the American market.

For the past year, simulated fur fabrics made from natural and manmade fibers have been extremely popular. The advertising and labeling of garments made from these fabrics has presented a considerable problem to the Bureau as some manufacturers have concocted trade names and descriptions for their products that are misleading to the public, and are contrary to the Textile Fiber Products Identification Act, and the Commission decisions under the Federal Trade Commission Act.

Compliance with the Fur Products Labeling Act and the regulations thereunder has shown an improvement over the past year but there is still a vast amount of education necessary before full compliance can be expected. The use of fictitious and false comparative prices is still prevalent among many retail furriers.

In carrying out its enforcement under the Wool, Fur, Flammable Fabrics, and Textile Acts the Bureau drafts substantitive rules and regulations under each of these statutes. Under the Textile Act, generic names for manmade fibers are established. Also, it maintains a fur products name guide under the Fur Act,

Nearly 38,000 registered identification numbers have been issued under the Wool, Fur, and Textile Acts for identification purposes in connection with the required labeling of products subject to these statutes. In addition, a public register is maintained containing thousands of continuing guarantees filed with the Commission under these four acts.

The Bureau plans and supervises a large nationwide compliance, inspection, and industry counseling program in its administration of these consumer laws. It furnishes expert legal and technical advice regarding the requirements of the laws and their respective rules and regulations. It renders opinions and interpretations to industry and the consuming public under the various statutes. An effective educational and orientation program is carried on in an effort to acquaint industry with the requirements of the laws and with consumers regarding the benefits of the legislation.

Every effort is made to maintain voluntary compliance with the laws without the need of costly litigation. However, when circumstances indicate voluntary compliance cannot be obtained or that violations appear deliberate, an effective and firm enforcement program leading toward the issuance by the Commission of cease-and-desist orders is followed.

In addition, the Bureau handles the compliance work of all orders to cease and desist issued under these acts. The Commission now has outstanding more than 850 cease-and-desist orders against concerns charged with violating the Wood, Fur, Flammable Fabrics, and Textile Acts.

These important functions are carried out under the direction of the Bureau Director by two divisions: the Division of Regulation and the Division of Enforcement.

The Textile Fiber Products Identification Act has been in effect since March 3, 1960, and it is most necessary that a highly effective enforcement program of this important legislation be carried on. The scope of the textile act is far broader than the combined scope of the other three pieces of consumer legislation administered by the Commission. Generally speaking, the act extends to all textile transactions throughout the United States and its territories. From past experience under the Wool, Fur, and Flammable Fabrics Acts, the first few years are the most difficult in administering an act of this type and this Bureau is still assisting the textile industry to get its house in order.

Increase requested for travel

An increase of $35,000 is requested for travel funds for the entire Bureau of Textiles and Furs which is a restoration of a reduction necessary in 1964 because of increased pay costs.

OFFICE OF THE DIRECTOR

The Office of the Director is requesting no increase in its staff for fiscal year 1965. An increase of $1,000 is requested for the cost of the pay raise and $4,000 to restore reduction in funds made necessary by reduced appropriations.

DIVISION OF ENFORCEMENT

This Division is charged with the responsibility of investigation and prosecution of serious violations of the Wool, Fur, Textile, and Flammable Fabrics Acts. Further, the Division of Enforcement includes a compliance section which polices all of the Commission's cease-and-desist orders under each of these acts.

Violations of the acts discovered through inspection procedures of the Bureau of Textiles and Furs or received by complaint from sources outside of the Commission, which when analyzed appear to be of a serious nature, are assigned an investigational number and the matter is referred to this Division. This case is assigned to a trial attorney who is responsible for the subsequent prosecution of the case. Generally, the case is forwarded via the Bureau of Field Operations to trained field investigators with a detailed memorandum outlining the scope and details of the investigation. When the report of investigation is received from, the field, a determination is made as to whether there is sufficient evidence to justify a recommendation to the Commission that a complaint issue. If the necessary evidence is lacking, a recommendation is made that the matter be closed. If a complaint is recommended and issued, the trial attorney prepares and handles the litigative phases of the matter before the Commission.

In those cases in which a consent order is offered to the respondent this Division assists the Office of Consent Orders in settlement negotiations. Further, in those instances where injunctions and condemnation proceedings are believed necessary, such are recommended to the Commission and upon approval of the recommendation the attorneys of the Enforcement Division handle these matters in the U.S. district courts. In addition, if the violations are willful and a criminal prosecution appears to be warranted, such recommendations are made to the Commission. If the Commission concurs and the case is referred to the Department of Justice, a trial memorandum is prepared, forms of information and other essential papers and the attorneys assist the Department of Justice and the U.S. attorneys in every way possible with the prosecution of the matter.

Attention is called to the fact that in most instances, the consuming public is the direct beneficiary of the efforts of this Division since most of the cases processed under the acts administered involve misrepresentation of the consuming public of the contents or characteristics of wool, textile, or fur products. During the past year increasing attention has been given to the use of fictitious prices or false and deceptive comparative prices and savings claims. Orders issued correcting such violations have the effect not only of protecting the immediate customers of the respondent against whom the order was issued but also the customers of competitive firms since these orders serve as a guide and notice to other firms to correct their practices. Increasing the staff would have an immediate effect on the consuming public in that the area of enforcement could be broadened and the direction of enforcement expanded to include practices which at present cannot be adequately policed. As an example, it is pointed out that the importation of woolen fabrics and textile fabrics during the past few years has increased significantly. Such importations have placed a tremendous competitive burden upon the domestic producers of woolen and textile fabrics. When imported fabrics arrive in this country misbranded as to the fiber content and are placed upon the market, this burden is compounded and immeasurable damage is done to domestic industries and to the consuming public. While this

Division has attempted to curb these practices the importation of misbranded fabrics is increasing so rapidly that we are unable to properly police this phase with our present staff.

Workload, fiscal year 1963

During fiscal year 1963, the Division of Enforcement processed 189 cases either by the issuance of an order, a recommendation for complaint, or by a closing recommendation. In the first 6 months of fiscal year 1964 there were 54 cases in which the Commission issued an order or complaint in addition to 53 cases that were forwarded with a recommendation that they be closed making 107 matters disposed of as against 189 during the 12 months of fiscal year 1963.

During fiscal year 1963 the Commission issued 193 deceptive practice cease-and-desist orders. This includes 10 under the Wool Act, 47 under the Fur Act, 9 under the Textile Act, and 9 under the Flammable Fabrics Act, for a total of 75 cases. The Bureau of Textiles and Furs accounted for 38.3 percent of the deceptive practice orders issued by the Commission during the period.

The Commission issued 8 orders under the Wool, 30 under the Fur, 3 under the Textile, and 13 under the Flammable Fabrics Acts, for a total of 54 orders during the first 6 months of fiscal year 1964 as against 75 orders in the whole of fiscal year 1963. Further, during this period 125 new cases were docketed for investigation as against 154 new cases for full fiscal year 1963.

The Compliance Section of the Division of Enforcement consists of three attorneys engaged in obtaining compliance with all new orders as they are issued under the four statutes administered by the Bureau as well as in policing such old orders as require checking in special circumstances.

At the commencement of fiscal 1963, there were pending 187 active compliance cases in various categories. To this there were added during the year 75 new orders and 40 cases which were reopened, a total of 302 compliance matters. Striking from this latter figure the cases which were closed during the year the Division commenced fiscal 1964 with 135 active compliance matters, a net decrease of 28 percent for the year. Whereas the fiscal year of 1963 closed with 135 active compliance matters pending there were 152 at the end of the first 6 months of fiscal year 1964, although 44 cases were disposed of during this period. The backward slide in this Section is due to the fact that three attorneys cannot handle the volume of work arising from Commission orders under the Wool, Fur, Textile, and Flammable Fabrics Acts. Many matters that would ordinarily be investigated by the Compliance Section presently must be passed over due to lack of personnel.

Though in numbers there has been a decrease in caseload, some areas of the Division's compliance activity have necessarily suffered for want of additional personnel. As of July 1, 1963, there were on hand 48 compliance investigations to be analyzed, 20 of them being completed civil penalty investigations. During the year four civil penalty cases were prepared with drafts of complaint and fully documented trial memorandums, reported to the Commission and certified to the Department of Justice, but that represented but a small percentage of the civil penalty cases which could have been completed had the personnel been available.

Only 40 cases were reopened to check on the respondents' compliance with Commission orders. Reports of routine inspections coming in from the Bureau's inspectors in the field frequently suggest the need for detailed compliance investigations. In some instances where reports are filed showing apparent compliance, a check should be made to ascertain actual compliance. In these two areas effective enforcement requires a substantial increase in activity.

Of the 135 compliance matters on hand at the close of fiscal 1963, 54 of them represent a backlog from the 141 cases which were pending at the time the Bureau was set up in July 1961. Though the backlog was reduced substantially during the year, most of the 54 cases are in the category of voluminous investigations which require detailed study and analysis. The limited staff of this

Division has not been able to find the time necessary to effect such study and analysis.

Division of Enforcement—Workload statistics, fiscal 1963

	Wool	Fur	Flammable fabrics	Textile	Sec. 5, FTC	Total
Investigations initiated during year	36	87	7	24		154
Formal complaints recommended	11	73	12	5		101
Total complaints and orders issued	16	74	12	11		113
Investigations closed	13	42	4	17		76
Compliance cases opened:						
New orders	10	47	9	9		75
Reopened	8	23	5		4	40
Formal compliance investigations initiated	8	13				21
Compliance cases closed	28	102	21	14	2	167
Outstanding cease-and-desist orders as of June 30, 1962	300	471	38	27		836
Laboratory test performed	226	153	167	96		642
Active cases in which compliance reports were not received and filed as of June 30, 1963			57			
Civil penalty and compliance investigations to be analyzed as of June 30, 1963			48			
Civil penalty compliance investigations in the field as of June 30, 1963			24			
Civil penalty suits pending with the Department of Justice			6			

Division of Regulation—Workload statistics, fiscal 1963

	Textile	Wool	Fur	Flammable fabrics
Number of inspections made [1]	5,084	3,257	1,722	4,619
Products inspected (sampling method, except furs)	52,108,512	6,837,884	640,781	49,892,667
Deficiencies noted	3,837,801	461,310	49,167	
Registered numbers issued	1,393	276	300	
Continuing guarantees filed	608	792	138	1,181
Advertisements examined	1,113,189	23,540	38,605	
Assurances of discontinuance		1,399		
Incoming correspondence		23,947		
Outgoing correspondence		17,890		
Interpretations and opinions	30,288	17,064	11,888	3,824

[1] The number of inspections for the 1st 6 months of fiscal 1964 totaled 6,180 as against 14,682 for the full fiscal year 1963.

Bureau of Field Operations

Mr. Evins. The Bureau of Field Operations. We discussed this earlier. There are 10 branch offices and one in the Washington area, making 11. You have 288 in the field now and you are asking for 288 in the field, no increase in personnel. You ask an increase of $151,250. It seems to me this is an area where if there were an increase, it would be in the field. Could you not do your checking of your compliance in the field?

Mr. Dixon. That is where it is.

Mr. Evins. Those operations do not show an increase.

Mr. Dixon. We did not get any approved. That is the reason it does not show any. We want these compliance people that are in the field now to move on to compliance work for the Commission. We will keep them there and we will use them there as teams.

Mr. Evins. We will put pages 107 through 111 in the record.

(The pages follow:)

Bureau of Field Operations

	Allotment, fiscal year 1964		Requested, fiscal year 1965		Increase, fiscal year 1965	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Director	6	$74,000	6	$75,500	.....	$1,500
Field offices	282	2,222,250	282	2,347,000	.....	124,750
Total, personal services	288	2,296,250	288	2,422,500	.....	126,250
Travel	.....	270,000	.....	295,000	.....	25,000
Total	288	2,566,250	288	2,717,500	.....	151,250

BUREAU OF FIELD OPERATIONS

The Bureau of Field Operations, through staffs of attorneys located in 11 field offices and 1 suboffice, performs all field investigative work for the Commission, including the holding of investigational hearings and the taking of depositions. In addition to this work, attorneys in the field offices are required to (1) negotiate for the settlement of cases by administrative treatment under rule 1.21 of the Commission's Rules of Practice; (2) negotiate with proposed respondents for consent settlement of cases at the investigational stage under rule 1.42 of its rules; (3) participate in the trial of litigated cases; and (4) act as trial counsel in some instances under the general supervision of the enforcement bureaus. Every investigation conducted by the Bureau of Field Operations is based upon a request received from the Bureaus of (1) Restraint of Trade; (2) Deceptive Practices; (3) Textiles and Furs; and (4) from the Commission itself. Files are submitted to this Bureau for the purpose of having its legal staff develop all facts, evidence, and information essential to a proper determination as to whether there has been a violation or violations of any of the statutes administered by the Commission and, if so, the exact nature and extent of such violations.

The Bureau of Field Operations, in addition to carrying out the functions described above, conducts investigations to determine whether respondents named in formal cease-and-desist orders are complying with the provisions of such orders. Wherever violations are discovered this Bureau has the responsibility for acquiring information and evidence in suitable form (usually affidavits and attached documents) for certification to the Attorney General for initiation of civil penalty action in the U.S. district courts under section 16 of the Federal Trade Commission Act. Investigations of this nature (compliance) are being requested of this Bureau in ever-increasing volume, primarily due to the responsibility of the Commission for the policing and enforcement of the more than 3,000 orders to cease and desist entered by it over the past 20 years. Many such orders involve whole industries and prohibit the usual restraints of trade, such as price fixing, boycott, allocation of customers, etc.

Work performed, fiscal year 1963

The fiscal year 1963 began with a pending workload of 839 cases in the field offices. During the year 1,184 cases were added to those already pending. Thus, there was a total of 2,023 numbered cases pending in the field offices for investigation under the Federal Trade Commission, Clayton, Textile, Wool, Fur, and Flammable Fabrics Acts. Many of these matters required complete investigations of the practices of an entire industry. Such investigations are extremely time consuming and require use of extensive manpower. Of the 1,235 investigations completed during fiscal 1963, 456 were in the restraint-of-trade field, and 779 were in the deceptive-practices and textile-and-fur fields.

At the close of the fiscal year 788 cases were pending in the field offices, 361 of which were in the restraint-of-trade field, 371 in the deceptive-practice field, and 56 in the field of textiles and furs. During the first 6 months of fiscal year 1964, 569 of these cases were completed.

In addition to performing the foregoing investigational functions, attorneys on the staff of the Bureau of Field Operations conducted negotiations for consent settlements in 27 cases, participated directly in 17 investigational hearings and in the trial of a number of litigated cases. They also assumed responsibility for the trial of 54 cases in the restraint-of-trade field.

Workload in fiscal year 1964

It is estimated that the Bureau of Field Operations will be called upon to conduct approximately 2,200 investigations during fiscal 1964, in addition to which it must assume responsibility for the settlement of many cases by administrative treatment and the negotiation of consent settlements. Staff members will be required o engage in the preparation of proposed complaints and orders, to participate in the trial of an increasing number of litigated cases, and to assume primary responsibility for the trial of a limited number of cases. During the first 6 months of fiscal 1964, with its present personnel, the Bureau has completed 569 investigations, 45 of which entailed negotiations for consent settlement. In addition to this, the present personnel of this Bureau have participated in 10 hearings, assisted in the preparation of trial briefs in 8 matters, and have assumed primary responsibility for the trial of approximately 54 cases.

The increase in the number of cases for investigation in 1964 and 1965 will result from new plans and programs adopted by the Commission, particularly with reference to its duties and obligations in the enforcement of prohibitions contained in cease-and-desist orders already in existence.

Since it is now the policy of the Commission to attempt to obtain compliance with the laws administered by it on an industrywide basis, rather than on a basis of proceeding against individual firms, it can be expected that the requests for industrywide investigations will increase. An application for complaint involving only the alleged practices of a single firm may have to be expanded into an industrywide inquiry of the practices of all members of any industry who may be engaged in substantially similar practices. Such investigations necessarily expand the amount of work required in direct proportion to the number of firms competing in a single industry. However, industrywide action will unquestionably provide more equitable treatment to all members of the industry involved and result in far greater benefit to the public.

It is not reasonable to expect an increase in production of investigational cases by attorneys in the field offices, because of additional functions which they are now required to perform. With the staff available for the fiscal year 1964 it can be anticipated that an investigational case backlog of 800 to 1,000 cases will remain in the field offices at the end of that period.

Increases requested, fiscal year 1965

The Bureaus of Restraint of Trade, Deceptive Practices, and Textiles and Furs have initiated plans for intensified programs to effect more efficient, widespread, and uniform enforcement of laws administered by the Commission, particularly through industrywide action and vigorous surveillance of existing cease-and-desist orders. Additional manpower and travel funds will be required to carry out these programs and reduce an expected backlog of between 800 and 1,000 cases, and particularly since attorneys in the field offices are required to expeditiously handle investigations, including those of an industrywide nature, settle cases by administrative treatment, negotiate for consent settlements, participate in the trial of litigated cases, and in many instances assume full responsibility for the trial of cases in their area.

It may be expected that the vigorous and expanded programs of cease-and-desist-order enforcement already underway will result in increasing the number of requests for investigations of this nature. The courts, the Attorney General of the United States, and the Commission, require evidence in the form of documents and affidavits in all enforcement investigations intended to be used in civil penalty proceedings in the U.S. district courts. For this reason, such investigations are generally more time consuming and require a more extensive use of manpower than initial investigations where affidavit evidence is not required. Furthermore, many of these investigations are industrywide in nature.

Under the Commission's current rules for the conduct of litigated cases (sec. 3.16(d)) hearings must be promptly begun, held at one place, and continue without suspension or interruption until concluded. There is no opportunity to postpone, suspend, or delay hearings for the purpose of obtaining or developing, through investigation, additional facts and data to support any allegation of the

particular complaint involved. It is therefore imperative that in all investigations a compete set of facts be developed which not only will give the Commission reason to believe (as required by statute) that a violation has occurred, but will fully establish during an uninterrupted and continuous trial that a violation did occur. The facts established by the investigation must be sufficient to support any charge which may be stated in a complaint. A policy and procedure of this nature is desirable and results in the expedition of hearings conducted in adversary proceedings. However, attorneys in the field offices must assume a much heavier burden in establishing by oral and documentary evidence ample proof of violations in all cases, except those which they may be able to settle by administrative-treatment or consent-settlement procedure.

Field offices serve as a convenient local point to which businessmen in the area may go to seek and obtain advice, information, and counseling on suitable methods for effecting voluntary compliance with the laws administered by the Commission. The legal staffs of these offices not only render such services in the field offices of the Commission where they are located, but, as a result of their travels throughout the territory, they are in a position to and do render such service to innumerable businessmen at their places of business wherever located. No doubt such advice and counseling is invaluable to businessmen located in the area of each field office, and enables them to conduct their business in compliance with the trade regulation laws administered by the Commission.

No additional positions are requested in 1965 to accomplish the investigational needs of the enforcement programs heretofore mentioned during fiscal year 1965, although $126,250 for personal services is required to provide $12,250 restoration of the 1964 reduction, $59,000 for required pay-raise costs, and $55,000 for staff promotions in order that we may retain and utilize our current staff of trained attorneys.

In addition, a restoration of $25,000 for travel is requested.

Bureau of Industry Guidance

Mr. Evins. We will turn to Division of Industry Guidance. Who is the Chief of this Division?

Mr. Dixon. Mr. Yarley. Mr. Snow is here, the Assistant Director.

Mr. Evins. Are you giving good advice and guidance?

Mr. Snow. We try to.

Mr. Evins. You want two additional personnel in your Division next year?

Mr. Snow. Yes, sir.

Mr. Evins. You have 47 in 1964 and you want 49 in 1965. What are these two to be used for? Why are they necessary? Give us a quick justification?

Mr. Snow. They are requested for the Division of Trade Regulation Rules. The trade regulation rules procedure is a new procedure. To set up this new Division we stripped the staff of the older Trade Practice Conference Guides Division to furnish the nucleus of experienced attorneys. But as more and more matters were referred to the Division for handling under this new procedure, there is a dire need for additional attorneys. We now have 21 prospective proceedings pending, which would mean a workload that the present staff would not be able to handle.

Mr. Evins. Do you travel much with your staff in your Division?

Mr. Snow. No, sir.

Mr. Evins. You are requesting $4,000 increase for travel.

Mr. Snow. We feel there will be more travel necessary as a result of the expanded operations of the Bureau.

Mr. DIXON. This $4,000 is a restoration of funds we took away from him in 1964.

Mr. JONAS. I think you would need diplomats instead of lawyers.

Mr. SNOW. We do. It is sort of a combination job, it is public relations—educational as well as legal. However, the advice we give is legal advice.

Mr. EVINS. Mr. Reporter, place pages 114 and 115 in the record.

(The pages follow:)

Bureau of Industry Guidance

	Allotment, fiscal year 1964		Requested, fiscal year 1965		Increase, fiscal year 1965	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Director	16	$98,000	16	$106,500	.....	$8,500
Division of Trade Practice Conferences and Guides	18	212,000	18	223,500	.....	11,500
Division of Advisory Opinions	6	103,000	6	107,500	.....	4,500
Division of Trade Regulation Rules	7	90,000	9	115,500	2	25,500
Total, personal services	47	503,000	49	553,000	2	50,000
Travel	.....	2,000	.....	6,000	.....	4,000
Total	47	505,000	49	559,000	2	54,000

The Bureau of Industry Guidance administers the Commission's program for obtaning widespread voluntary law observance. This is accomplished through procedures designed to furnish guidance to businessmen as to legal requirements and to afford them opportunity to discontinue unlawful practices voluntarily without the expense and delay of litigation. More specifically, these procedures provide for (1) the promulgation of trade regulation rules upon which the Commission may rely in litigated cases, (2) the preparation of advisory opinions which are binding upon the Commission, and (3) the issuance and administration of trade practice conference rules and guides interpreting statutory provisions as applicable to practices of particular industries or practices common to many industries. These procedures are administered, respectively, by the Division of Trade Regulation Rules, the Division of Advisory Opinions, and the Division of Trade Practice Conferences and Guides.

Increases requested, fiscal 1965

Funds in the amount of $7,000 are requested for restoration of the reduction necessary in 1964, $13,000 for increased pay raise costs, $10,000 for staff promotions and $20,000 for two additional attorneys, a total of $50,000 for personal services.

In order to carry out this advisory and voluntary compliance program effectively, it is necessary to make a restoration of $4,000 for travel funds.

BUREAU OF ECONOMICS

Mr. EVINS. We will turn to the Bureau of Economics. This is under Dr. Mueller. We discussed his work this morning. There is no increase in personnel but an increase of $69,000 requested for next year. We will place pages 126, 127, and 128 in the record.

(The pages follow:)

Bureau of Economics

	Allotment, fiscal year 1964		Requested, fiscal year 1965		Increase, fiscal year 1965	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Director	42	$272,000	42	$290,000	----------	$18,000
Division of Economic Evidence	29	223,000	29	251,000	----------	28,000
Division of Economic Reports	16	160,000	16	171,000	----------	11,000
Division of Financial Statistics	39	264,000	39	272,000	----------	8,000
Total, personal services	126	919,000	126	984,000	----------	65,000
Travel	----------	3,000	----------	7,000	----------	4,000
Other expenses	----------	8,500	----------	8,500	----------	----------
Total	126	930,500	126	999,500	----------	69,000

BUREAU OF ECONOMICS

The functions of this Bureau are to give economic assistance and advice to the Commission in its investigational and trial work and to conduct economic studies in response to requests by the Congress, the President, or the Commission. This Bureau plays an increasingly important part in all phases of the Commission's law enforcement program and renders economic assistance to all of the operating bureaus of the Commission.

Increases requested, 1965

Funds in the amount of $43,000 are requested for restoration of required reduction in 1964, $19,000 for increased pay raise costs, and $3,000 for staff promotions.

An increase of $4,000 is requested for travel which is only a restoration of the reduction necessary in 1964.

OFFICE OF THE DIRECTOR

This Office exercises general supervision over the Bureau's three divisions. These responsibilities are exercised by the Director who is also the Commission's chief economist.

Also in this Office are the Bureau's Stenographic Section and Statistical Services Section. The latter unit, in addition to providing statistical assistance to the Bureau's Division of Economic Evidence and Division of Economic Reports, provides statistical and clerical assistance to other divisions of the Commission.

The increased costs for the pay raise will be $4,000 and $14,000 is requested to restore reduction in funds necessitated by reduced appropriations in 1964.

DIVISION OF ECONOMIC EVIDENCE

The Division of Economic Evidence has primary responsibility for providing economic assistance to the legal bureaus and divisions in connection with the investigation and trial of cases. In addition, the Division is responsible for identifying, recording, and developing information regarding mergers and acquisitions. The Division also reviews all section 6 surveys made in connection with merger investigations and cases and assists with the processing of such surveys.

During fiscal 1963, economists in the Division rendered economic assistance on 70 investigations and 30 formal cases. Of the 70 investigations, 63 were section 7 of the Clayton Act, 5 were section 5 of the Federal Trade Commission Act, and 2 were section 2 of the Robinson-Patman Act. Of the 30 formal cases, 24 were merger cases under section 7 of the Clayton Act, 2 were under section 5 of the Federal Trade Commission Act, and 4 involved both sections 2(a) of the Robinson-Patman Act and section 5 of the Federal Trade Commission Act.

As a part of the Commission's enforcement of section 7 of the Clayton Act more than 1,200 mergers are screened each year by the Division of Economic

Evidence. The preliminary steps in processing these mergers include the preparation of merger sheets containing some preliminary basic information showing products, sales, assets, etc., for the acquiring and acquired companies. The Division also compiles merger statistics which give some indication of the trend and the degree of merger activity in the economy.

Economic assistance is also required by attorneys working on general trade restraint matters, i.e., matters involving unfair methods of competition under section 5 of the FTC Act. Much of the work in this field involves problems of monopolies and restraint of trade where economic analysis may be of considerable assistance. In the past the Division of Economic Evidence has been able to meet less than one-half of the demand for economic assistance in section 5 work. There are at the present time several major monopoly and restraint of trade investigations in key industries where it has not been possible to assign any economists to assist attorneys despite repeated requests for such assistance in this area.

Assistance to attorneys working on price discrimination cases (Robinson-Patman) is another area where economic assistance has been insufficient to meet the Commission's needs. In this area economic analysis can serve as a valuable tool in connection with the selection of cases, and in the analysis and presentation of economic evidence.

As discussed above, (see discussion of compliance under restraint of trade) the Division of Compliance is confronted with an enormous volume of compliance matters relating to past Commission actions. Relief is obviously one of the most important considerations in the Commission's work, and, to be accomplished effectively, often requires a sophisticated economic analysis of both the firms and the relevant industries. Economic assistance is required on substantially all compliance matters relating to merger and other important antimonopoly cases.

The Division is called upon increasingly to assist in the analysis of alleged or suspected false claims of respondents based upon statistical sampling surveys. To meet current requirements in this field at least one member of the economics staff should be working in the area on a full-time basis.

The Division also is responsible for analyzing the economic and statistical data contained in respondents' applications for advisory opinions concerning the legality of various types of contemplated business conduct, as well as provide assistance in trade practice conference and other industry guidance programs of the Commission.

Other Expenses

Mr. Evins. On other expenses, we will put pages 133 through 137 in the record.

(The pages follow:)

Other Expenses

The sum of 2,311,000 is required for costs other than salaries. These costs are itemized in the following table:

Item of expense	Allotment fiscal year 1964	Requested fiscal year 1965	Increases fiscal year 1965
Personnel benefits	$763,500	$814,500	$51,000
Travel and transportation of persons	490,000	605,000	115,000
Transportation of things	8,000	22,000	14,000
Rent, communications, and utilities	256,500	229,500	−27,000
Printing and reproduction	100,000	130,000	30,000
Other services	146,000	175,000	29,000
Supplies and materials	150,000	171,000	21,000
Equipment	15,000	164,000	149,000
Total	1,929,000	2,311,000	382,000

It was necessary to reduce general operating expenses during fiscal year 1964 by $299,000 because of reduced appropriations. In order to avoid a reduction-in-force we were compelled to transfer this amount to personal services. The overall increase of $382,000 requested in fiscal year 1965 represents a restoration

of the reduction of $299,000. The difference of $83,000 represents a $39,000 increase in civil service retirement funds resulting from the pay increase and the remaining $44,000 represents necessary increased operating costs.

PERSONNEL BENEFITS

The sum of $814,500 is required for personnel benefits as shown in the following table. These benefits are statutory and the cost reflects the Commission's pro rata share for these items.

Personnel benefits	Allotment fiscal year 1964	Requested fiscal year 1965	Increases fiscal year 1965
Employee life insurance contributions	$35,000	$38,000	$3,000
Civil service retirement costs	655,000	694,000	39,000
Social security taxes	9,000	9,000	
Health benefits contributions	63,000	72,000	9,000
Public health services (first aid)	1,500	1,500	
Totals	763,500	814,500	51,000

TRAVEL AND TRANSPORTATION OF PERSONS

The amount of $605,000 is required for travel expenses in 1965. This amount will provide for the payment of transportation expenses, rental of automobiles, subsistence, incidental expenses and mileage costs for the use of privately owned automobiles for official travel. In order to absorb the increased pay raise costs it was necessary to reduce travel funds in 1963 by $50,000 and in 1964 by an additional $100,000. Therefore, this request represents a restoration of only $115,000 of the total reduction of $150,000 in travel funds over the 2-year period.

It is necessary to allocate $35,000 of this $115,000 restoration to the Bureau of Textiles and Furs in order to provide a minimum of 60 days of travel for the present staff and the additional employees requested in that Bureau, mainly for the investigators in the Division of Regulation.

TRANSPORTATION OF THINGS

Funds in the amount of $22,000 are requested for this item in 1965. This represents a restoration of the reduction required in 1964. It is contemplated that this amount will be needed to defray the costs of moving household goods of field employees who are transferred during the year as well as freight and express charges incurred during the year.

RENTS, COMMUNICATIONS, AND UTILITIES

Rents and utility services

Funds in the amount of $59,000 are requested for fiscal year 1965. This represents a decrease of $27,000 from the 1964 allocation. IBM and computer rental is reduced by $26,000 (this is explained in detail under Office of the Comptroller) and Xerox equipment rental by $1,000.

There is set forth below a summary itemizing the estimated rental costs for 1965:

	Allocation fiscal year 1964	Request fiscal year 1965	Decrease fiscal year 1965
IBM and computer rental	$55,000	$29,000	−$26,000
Haloid, Copyflo, and Xerox equipment	31,000	30,000	−1,000
Total	86,000	59,000	−27,000

Communication services

Funds in the amount of $170,500 are requested for communication services which represents no increase over the allocation for fiscal year 1964. This represents the additional cost of telephone, telegraph, and postal services which will be required in 1965.

PRINTING AND REPRODUCTION

Funds in the amount of $130,000 are requested for printing of the Commission's volumes of decisions, statutes, court briefs, photoduplications, and miscellaneous administrative printing. This represents a restoration of the $30,000 reduction in 1964 which will be effected mainly through deferring until 1965 the printing of a volume of the Commission's decisions.

OTHER SERVICES

This account includes all services not otherwise classified. The items included under "Other services" are shown in the following table:

	Allotment, fiscal year 1964	Requested, fiscal year 1965	Increase, fiscal year 1965
Repairs and building alterations	$31,500	$36,500	$5,000
Stenographic reporting services	35,000	50,000	15,000
Corporate statistics (BOASI)	3,500	3,500	
Internal Revenue, corporate statistics	5,000	5,000	
Clinical testing	71,000	80,000	9,000
Totals	146,000	175,000	29,000

Details concerning the requested increase of $9,000 for clinical and scientific testing will be found in the justification for the Division of Scientific Opinions, Bureau of Deceptive Practices.

SUPPLIES AND MATERIALS

Funds in the amount of $171,000 are requested for supplies and materials representing an increase of $21,000 over the allocation for 1964. This is the estimated increased cost based upon the current prices being paid for supplies.

Included in this request is the cost of the annual library order for subscriptions and publications amounting to approximately $28,000 which is no increase over the actual cost for 1964.

EQUIPMENT

Funds in the amount of $164,000 are requested for new equipment in the fiscal year 1965. This represents an increase of $149,000 over the allocation for 1964. The increase requested consists of the following items:

Desk, chairs, and miscellaneous furniture (replacement—no longer serviceable)	$10,000
Typewriters, exchange for worn and obsolete machines	23,000
Calculators	4,500
Adding machines	5,000
(The amounts requested for calculators and adding machines is for replacement of obsolete machines over 20 years old.)	
Dictaphones, replacement	7,000
Total for furniture and office machines	49,500
Burroughs Corp., purchase of computer as set forth in justification for Office of the Comptroller	114,500
Total	164,000

The above equipment estimates for furniture are extremely conservative and are dependent on securing a large amount of excess property from other Government sources.

Mr. EVINS. "Travel and transportation" is up to $605,000, an increase of $115,000; "Transportation of things" is to be increased by $14,000.

PRINTING COSTS

"Printing and reproduction" is up $30,000 from $100,000 to $130,000. Why $30,000 more printing bill?

Mr. GLENDENING. We have one case coming up in appeals next year that we estimate the cost for printing the record will be $70,000 just in the one case. The printing costs of appeals records are extremely high. We have several big cases that we know will be coming up next year. For example, *Luria Brothers* case, our share of the printing of the record will be in the neighborhood of $70,000. We have no control over that. In most instances we share the record printing costs on a pro rata basis with the respondents.

Mr. EVINS. Off the record.

(Discussion off the record.)

Mr. EVINS. Travel costs go up. Printing costs go up.

Mr. DIXON. The President's letter directed all agencies to reexamine all printed matter.

Mr. GLENDENING. The cost of legal printing, briefs, and transcripts of records, et cetera, last year cost us almost $52,000.

Mr. THOMAS. You go up from $100,000 to $130,000 in one year.

Mr. DIXON. We are trying more cases.

Mr. THOMAS. You want $20,000 or $25,000 for printing Commission decisions. We suggested you hold it, last year, in abeyance. Did it wreck anybody to hold the printing in abeyance? How much did it cost this year?

Mr. GLENDENING. About $20,000 this year.

Mr. EVINS. We have already discussed the IBM equipment. Are there any other questions on "Other objects"?

COMMUNICATIONS

Mr. BOLAND. How about communications? That figure remains the same for 1965. Do you participate in the GSA telecommunications setup?

Mr. GLENDENING. No, only to the extent that some of our field office phone costs are billed by GSA. We are not on the big board in Washington. We deal directly with the Chesapeake & Potomac Telephone Co. and do not go through the GSA board in Washington.

Mr. BOLAND. Is there any reason for not going through it?

Mr. GLENDENING. Yes. It would cost us more money. Secondly most of our attorneys do not have secretaries assigned and as they travel a great deal throughout the country, our telephone operators operate a sort of secretarial service for our attorneys who are out of town. Law firms and attorneys call in and want to talk to Frank Black, an attorney, and he is trying a case in Kansas City, for instance. The caller can leave word with the telephone operator and she then tells them he will be back in town on such-and-such a date. Otherwise his phone would ring and nobody would answer. They would say, that fellow is probably wandering around the city someplace.

We find that we are getting along very well and are very happy with our own switchboard.

Mr. THOMAS. Regardless of being happy, what Mr. Boland is trying to find out is your relationship with GSA. You made the statement a while ago that it would cost you a little bit more money. Is that in conjunction with the saving of additional secretarial force, forgetting your secretarial courtesy?

Mr. GLENDENING. No. We are saving money by not going on the GSA automated board.

Mr. BOLAND. Off the record.

(Discussion off the record.)

Mr. EVINS. Are there any further questions?

Mr. JONAS. I meant to ask this while we were discussing the Bureau of Economics. You moved so fast I could not do it then.

EXPORT TRADE RESPONSIBILITIES

Does the Commission have responsibility under the Export Trade Act of 1918?

Mr. DIXON. We have sole responsibility for enforcement of the Webb-Pomerine Act.

Mr. JONAS. What does it consist of and what is your responsibility?

Mr. DIXON. Fundamentally, after World War I, I am satisfied that the Congress was worried about exposing our growing trade to a world of cartel and monopoly. So Webb-Pomerine was passed by the Congress as an avenue of encouragement where the domestic traders could join together in an association and register with the Federal Trade Commission and then have the immunity to go abroad as a body, you might say, go abroad with common purposes, so long as they did not have any restrictions at home.

Mr. THOMAS. They could practice it overseas but not at home?

Mr. DIXON. Exactly. They are doing it in Europe, and that is what we are doing here.

Mr. EVINS. That is all, Mr. Chairman. Thank you very much gentlemen.

Mr. THOMAS. Thank you very much, gentlemen. It is always nice to see you all. We enjoy seeing you.

MONDAY, FEBRUARY 24, 1964.

SELECTIVE SERVICE SYSTEM

WITNESSES

LT. GEN. LEWIS B. HERSHEY, DIRECTOR OF SELECTIVE SERVICE
COL. WILLIAM S. ILIFF, JR., ASSISTANT TO THE DIRECTOR
LT. COL. MAXWELL O. JENSEN, OFFICE OF LEGISLATION AND LIAISON, SELECTIVE SERVICE

SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions:			
	Civilian	22,715	23,262	28,153
	Military	2,812	3,006	3,342
	Positions other than permanent	3,394	3,628	3,897
	Other personnel compensation	35	232	162
	Total personnel compensation	28,956	30,128	35,554
12	Personnel benefits	1,927	2,063	2,270
21	Travel and transportation of persons:			
	Administrative travel	676	707	707
	Travel of selectees	1,206	2,479	1,945
	Payment to interagency motor pool	43	64	63
22	Transportation of things:			
	Freight, express, and drayage	69	75	55
	Rental of trucks	2	4	4
	Parcel post	49	49	49
23	Rent, communications, and utilities:			
	Communication services	603	655	654
	Rents and utilities	27	27	275
	Penalty mail	695	772	772
24	Printing and reproduction	174	190	192
25	Other services	128	119	118
26	Supplies and materials	228	236	237
31	Equipment	660	146	135
	Total costs	35,443	37,714	43,030
	Change in selected resources	−4	−9	−10
	Total obligations	35,439	37,705	43,020

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	5,448	5,440	7,112
Full-time equivalent of other positions	915	951	1,010
Average number of all employees	6,251	6,294	8,021
Employees in permanent positions, end of year:			
Civilian employees	5,130	5,048	6,067
Military employees	249	249	250
Employees in other positions, end of year	1,786	1,948	1,969
Average GS grade	5.5	5.6	5.6
Average GS salary	$5,833	$6,156	$6,246
Average salary of ungraded positions	$4,239	$4,317	$4,334

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. National administration, planning, training, and records management	1,798	1,954	2,045
2. State administration, planning, training, and records servicing	6,604	6,996	7,425
3. Registration, classification, and induction	26,977	28,664	33,460
4. National Advisory Committee on the Selection of Doctors, Dentists, and Allied Specialists	19	38	38
5. National Selective Service Appeal Board	45	62	62
Total program costs, funded [1]	35,443	37,714	43,030
Change in selected resources [2]	−4	−9	−10
Total obligations	35,439	37,705	43,020
Financing: Unobligated balance lapsing	2,130		
New obligational authority	37,569	37,705	43,020
New obligational authority:			
Appropriation	37,714	37,940	43,020
Transferred to "Operating expenses, Public Buildings Service," General Services Administration (76 Stat. 728 and 77 Stat. 436)	−145	−235	
Appropriation (adjusted)	37,569	37,705	43,020

[1] Includes capital outlay as follows: 1963, $660,000; 1964, $147,000; 1965, $150,000.
[2] Selected resources as of June 30 are as follows:

	1962	1963	1964	1965
Stores	252	248	109	109
Unpaid undelivered orders			128	120
Advances			2	
Total selected resources	252	248	239	229

Mr. THOMAS. The committee will please come to order.

It is always a most pleasant and noteworthy occasion to have our friends from the Selective Service System with us, our distinguished Director, Gen. Lewis B. Hershey. It is always very nice to have his very able assistants, Col. William S. Iliff, Jr., and Lt. Col. Maxwell O. Jensen, of the Office of Legislation and Liaison.

How long have you been on the job, Colonel Jensen?

Colonel JENSEN. About 6 years.

Mr. THOMAS. This is the first time you have been in to see us, is it not?

Colonel JENSEN. On one other occasion I was along very briefly.

Mr. THOMAS. It is very nice to have you gentlemen.

Mr. Shipley has kindly consented to work out the budget with you. So, will you conduct the examination, Mr. Shipley?

Mr. SHIPLEY. Thank you very much, Mr. Chairman.

General, have you a statement you would like to present to the committee?

GENERAL STATEMENT

General HERSHEY. Mr. Chairman and members of the committee, I believe this morning I would like to comment a little bit on the whole situation of Selective Service, because I do not want to leave the impression that we are going through any revolution or any great dy-

namic change, but this past year has been materially different from any year that we have gone through in the last 10, and the year ahead of us is not only different but is uncertain and, at the present time, subject to considerable speculation. Our budget is based on facts and not on what may happen to us.

I should like to go back just a second to last summer, when our act was extended for 4 years without any material interference. I think sometimes it may have lulled the public into believing that we were completely accepted in the way we are operating. I have no illusions that was far from the fact. I think we are going through a tremendous change in the world and in the life of the Selective Service System, and a great many worries of the past are changing. We used to know what war and peace are, but they have become all clouded. We used to know what civilians were and what military were, and that is very clouded at the present time. That affects our operation a great deal because we are caught in a place where we must decide, where civilians are involved in survival, whether or not participation by them is great enough that it ought to be almost accepted in lieu of military service.

CHANGES IN INDUCTION REQUIREMENTS

Complicating the picture a little more, we started this fiscal year, as I am sure the members of the committee will remember, with quite a little discussion of how many people we were to induct. I cannot blame the Department of Defense for always being more optimistic about what they can enlist than turns out to be the case. Therefore, their budgets generally are rather large on what they can enlist, which tends, of course, to contract us on how many we need to induct.

I believe we started off talking about 100,000 to be inducted last year, but by the time we came over it had been raised to 129,000. Now we are faced with 165,000.

The difference between the 129,000 inductions and the 165,000, I am not theoretically at liberty to talk about this morning because I am not here representing the supplemental, but I am talking about the whole picture.

So, in the first place, the number inducted went up from about 130,000 to about 165,000. In addition——

Mr. THOMAS. Then it dropped back to 143,000 for 1965.

General HERSHEY. That is right. That is, it has now.

Last year when I came over here it was 129,000, and it ended up at 165,000. That is one of the things that makes life a little uncertain for everybody concerned.

So, the next thing that happened was that last May the Armed Forces raised their acceptability, particularly intellectually or educationally, and a great many people who were in the pool of those examined and accepted were rejected when they were submitted because the standards had changed between the time they were accepted on preinduction examination and the date of their induction.

ACCEPTANCE STANDARDS

Mr. JONAS. What do you mean by general standards?

General HERSHEY. Standards of the Armed Forces. In other words, suppose the Armed Forces would say that they will accept

people with a certain educational level. That is, with a soft lead pencil you take this questionnaire and mark on it and then it is recorded electronically. Those who were examined before May last year were accepted on a lower level than those examined after May. The result is that we had many examined and accepted and in our pool, and when we submitted them they were rejected.

In other words, in a 6-month period from July 1 to December 1, I think we submitted about 89,000 examined and accepted, and we lost over 10,000 of them. In other words, we had spent money to examine and to accept the ones who were accepted, and then when we sent them up for induction they were rejected.

The point I am trying to make is that that costs us money. So, the change of standards made a great deal of difference in the cost to us to induct 78,000 in the first 6 months of this fiscal year.

Mr. JONAS. Of course, we can understand that, and I also understand you do not have anything to do with establishing the physical and mental standards of the armed services, but it seems a little bit ridiculous to me to exempt or disqualify for any form of military service, thousands and probably hundreds of thousands of people who should be able to perform some service in the Military Establishment. They do not have to be Phi Beta Kappas or college graduates. Is that not putting an unusual burden on the superior, mentally qualified people, and relieving from any obligation a lot of people who should be able to contribute something?

General HERSHEY. Yes, sir, that is true. This may not be the place to say so, but I do not believe that we at the present time have sufficient methods of testing to provide individuals who would be most suitable for the Armed Forces.

The thing that worries me is that in that three-quarters of an hour that boy with a soft lead pencil marks "multiple choice," "yes," and "no," and a great many other things, so it can be handled electronically. I am on the record as saying it is not the fault of the Armed Forces. They have had to accept what science presents. Colleges have the same problems. Colleges will not be able to maintain for too long the acceptance and rejection of people by some of their methods of testing.

EVALUATION OF STANDARDS

Mr. OSTERTAG. The point is that the Armed Services more or less dictate or determine the standards and the means by which you operate in the administration of the Selective Service. In that connection, take a young man who is subject to call and is registered under the draft, he has a certain amount of education. Do you know whether he was a good scholar or not? Do you know whether he went through just 3 years of high school or completed high school and was a good student or a poor one?

General HERSHEY. We in the Selective Service do not know that.

Mr. OSTERTAG. Then how do you evaluate the standards that are required?

General HERSHEY. The Congress delegated completely to the Department of Defense the acceptability determination. I have nothing to do with that, but I do know something about how long some of these boys went to school. I do not pretend to know too much about their grades, although we are being forced into that.

Mr. OSTERTAG. Those they do not choose to accept, they send back to you.

General HERSHEY. That is right. I would say I have been compelled to try to save some money, and rather dangerously. We are, in a good many States, not sending up boys that have not finished the 8th and in some cases the 9th grade because our acceptability runs only 2 out of 100 in those lower grades. I have been caught so close and even short, trying to meet calls. I do not like to spend money sending people up that you know will fail. It is a dangerous thing, but we do it.

INDUCTION OF MARRIED MEN

Mr. OSTERTAG. I would like to ask another question which naturally would come up in any discussion of your problem. Now the armed services have determined that no married men will be called. Is that not correct?

General HERSHEY. Let us try to keep the responsibility where it belongs. In the first place, the Armed Forces had nothing to do with that.

Mr. OSTERTAG. Who did?

General HERSHEY. The President issues the Executive order, but let us be honest with the President. I recommended to him that he do that. I am bringing trouble on myself in this area, but I want to be perfectly honest with you. I made that recommendation, and I will tell you why.

In the first place, our problem for quite some time has been that our age of induction was high. That receives the criticism that boys do not know where they are for too late, and everybody I talked to was willing to see the age of induction fall. The only way you have it fall is by having less people that you take in. What do you take them in for? You take them in order for the Armed Forces to use them and, presumably, effectively.

A married man in the grade of private many times is more expensive than a noncommissioned officer who is single. Therefore, one of the most expensive is a man with dependents; and not only that, as Red Cross chairman, the trouble you have all the time with people in the service is with those who have dependents.

I want to be honest with everybody. The President who issued the order is dead, but he issued it after I recommended it. I presume he was in favor of it or he would not have issued it.

Mr. OSTERTAG. He is responsible and he is Commander in Chief.

General HERSHEY. That is right.

Mr. OSTERTAG. In other words, it was not an action of the Selective Service. It was an action of the executive branch through the Commander in Chief of the Armed Forces.

Mr. JONAS. If you will permit me to interrupt, I do not think that is true, Mr. Ostertag, because the Selective Service Act says men will be selected by the President, not necessarily by the Commander in Chief. I think his action here was in pursuance of his right to promulgate regulations.

Mr. OSTERTAG. All right.

Mr. JONAS. Not necessarily as head of the armed services.

General HERSHEY. I think he issued that as President of the United States.

I have been criticized over on the Hill on this very question, and it is so. Therefore, I do not want to be leaving any impression that I am trying to run behind anybody else, because I am not. It did create a pretty big job.

Mr. OSTERTAG. That is my point, General. I was not concerned about who was responsible, but that is the situation today.

General HERSHEY. That is right.

Mr. OSTERTAG. My whole question is that you are talking about standards and the Armed Forces requirements. A large percentage of those who are registered under Selective Service are married men. That means an added screening on your part, an added separation. You must separate the married men in the first instance before you can get to the men who meet the standards and requirements they are calling for, is that not correct?

General HERSHEY. That is correct. If we knew about it we would not physically examine either the fathers or the husbands, and thereby save whatever money is saved. But, you see, I had them examined before the order was issued, and I got caught.

Mr. OSTERTAG. In that connection, say a young man is classified I–A, and he is called or is about to be called, and he takes it upon himself to marry. Does that automatically disqualify him or eliminate him from the call?

General HERSHEY. I would not like to say quite automatically, because I think some have been called and were inducted, but by and large we have not inducted them because we were trying to carry out the order literally, and we have tried very hard not to induct married men. Regardless of when they got married, they still have a wife when they get in there, to bedevil the company commander and everybody concerned.

Mr. OSTERTAG. Have you found it a problem or a situation where you were unable to determine to what extent you were going to have men available by virtue of this marriage picture? In other words, is it not probable that many of these young men are getting married perhaps a little in advance of when they would ordinarily get married, in order to escape call?

General HERSHEY. Yes, that is true. Of course, with our first pool that we got caught with in September, we had losses all the way from 25 to 40 percent, but that is not happening now. That is one of those things that happened because we had a pool with a lot of married men in it.

That is one of the things that causes me to be over here perhaps with some tears on how I have had an awful bad year and it has cost me a lot of money. That problem is behind us. I will agree that if somebody gets married we will not send him up for preinduction examination nearly as likely as we did in the past.

EXTENSION OF LIABILITY FOR COLLEGE STUDENTS

You bring up a good question, but it is the same question I get caught with not only with the married men, but with the fellow who shows up in college and has not told us he is in college until we begin to get close to him, and there are some reasons he does not want to tell us because, if he tells us he is in college in order to get

deferred and gets deferred, he gets his liability extended to 35. Therefore, if he can play it cool, as he would say, and not tell us he is in college, he does not get his liability extended. The first thing you know, he is ordered up, and then, of course, he rushes in and says, "I have been in college all the time."

DEFERMENT OF COLLEGE STUDENTS

Mr. OSTERTAG. Is it a practice or policy to defer these young men until they complete their college education?

General HERSHEY. Yes, sir. Again, there is a question of trying to get the pool down under the assumption that we had more people than we could put in the Armed Forces, and if anybody was doing anything allegedly constructive, you tried, if you could, to leave him to do it, with the idea of using him when he had greater capacity.

We have been very liberal for several years in our deferments.

NUMBER OF MARRIED MEN DEFERRED

Mr. OSTERTAG. Getting back for one moment to the nonconscription of married men, have you any estimate as to the number who have been deferred by virtue of having been married or who have married since that order came in, and those who would have been selected otherwise?

General HERSHEY. No. We would have to guess at it. Of the 100,000 that we had on hand at the time the order came out, I suppose at least 30,000 of them either were married or married afterward. A good many of these were married before, because we were taking them before that time.

Mr. OSTERTAG. That is right.

General HERSHEY. It is a little hard to tell the number of people who just married. Sometimes a fellow goes to college and gets married. That did not used to be the rule, but now a good many of them both go to college and get married.

Not everybody has gone out and done that. There is a little flurry, but after the flurry is over they settle down. Some of them do, it is true.

PROBLEM OF DEPENDENTS

On the other hand, it does not make any difference why a fellow got married, the way we respect a marriage, the Armed Forces has to pay allowances and they have the fellow on their hands who has something that is distracting him. He gets overseas and his wife gets sick over here. If we let them take dependents overseas, even if they pay for it, it is a very unfortunate situation.

I had a son-in-law in the 504th Infantry that left Fort Bragg. They had 1,400 men in the outfit, and 700 dependents. Just imagine going over in a country where the line is very thinly held, and here you are with all your dependents. I saw General Handy in 1951 when he was commanding in Europe, and I said, "What is your biggest problem?" And he said, "Forty thousand dependents," knowing if he had to fight at any time, what in the world would he do with 40,000 dependents scattered around there.

Mr. OSTERTAG. Is that the basic reason for this order?

General HERSHEY. There are two reasons. First of all, it was to try to reduce the pool so you could lower the age of induction so you could give certainty to a youngster whether or not he would have to go. Secondly, you eliminate people the Armed Forces would rather not have. That is just about as succinctly put as I can say it.

Mr. OSTERTAG. Many of these married men possess high standards of qualification. So, on the one hand, they are reducing the number of qualified people very substantially as against the responsibility of taking additional people with dependents.

General HERSHEY. I think that is true, sir. Of course, you can also argue that the fellow who ran into matrimony to get away from getting in might run away from everybody else after he got in. I do not know that that is true, but that is arguable.

REENLISTMENT INCENTIVES

Mr. OSTERTAG. The military, and the Congress partially, have been responsible for the advancement of programs which provide fringe benefits and other means to encourage reenlistments and career service. That has played a role, has it not, in the overall requirements under selective service?

General HERSHEY. Yes, because the longer you keep an individual in, as you have only one slot, the less people can be in it. On the other hand, it depends on whom you encourage to stay in. If you encourage your top noncommissioned officers to stay in, you are bettering the organization. If you encourage your privates to stay in, I think you are doing a very unfortunate thing, because any man who gets into the Armed Forces and stays 3 years and is still in the lower grades, I do not think ought to be allowed even to reenlist. You had better start with a fresh one. You do not know what the new one will do. He is a possibility of being more than a private.

I do not believe the Armed Forces ought to furnish an incentive and I do not know that the Armed Forces have furnished an incentive for a fellow to stay in when he is only a so-so soldier or sailor or airman or marine. I do not think that ought to be encouraged.

NEED TO TRAIN MORE MEN

I think we ought to train more people. The thing that frightens me is when I look at the picture and see boys between 18 and 26, 8 million of them, and only 2 million have ever had any training. The other 6 million have not. It is dangerous.

REENLISTMENT INCENTIVES

Mr. OSTERTAG. Also there is the question of proficiency pay and proficiency with regard to reenlistment. Admiral Smedberg, of the Navy, in a recent discussion of this very matter before the Defense Appropriations Subcommittee, pointed out that he believed that it would be practical, sensible, and in the best interests of the service to have a liberal bonus with regard to reenlistments and proficiency. That would be somewhat different from our present system as you know.

There is this problem, if I understand it correctly: When we have such a large establishment as our Armed Forces, made up of upward of 3 million officers and men, there is such a thing as balance. They should not be all chiefs and no Indians, or all Indians and no chiefs. One of the problems has been promotions or advancements. You cannot have more colonels than you have captains. You cannot have more captains than lieutenants.

Then in the military forces the picture has changed as to the requirements, operations, and functions of the ordinary serviceman. We are in electronics and many other highly specialized fields today. Back in the old days of World War I and even through World War II, the average serviceman would dig ditches, be on kitchen police, and carry on functions of that kind which many are not required to do today because there are many highly specialized operations.

Again, Selective Service is closely associated with all that and with the balance or imbalance that might exist. Am I correct?

General HERSHEY. There is no doubt about it. I think very highly of Admiral Smedberg. I have known him a very long time and knew his father before him. I would go along with him on some bonus. The only worry about the bonus is as soon as you start it, you are bonusing a man in that you ought to have thrown out.

I realize Denmark is a very small country, but in Denmark 9 years is the most you can serve as an enlisted man in the army. They are trying to keep the army young. You cannot go in for the second term unless you are a middle-class noncommissioned officer, and you have to be the highest noncommissioned officer to enlist for the final 3 years.

I do not advocate that completely, but I certainly say you do not want all leaders and no followers, nor do you want all 30-year or 20-year and no 1-year men. The baseball teams develop to greatness, and suddenly a year comes that they are all too old.

Mr. OSTERTAG. On the other hand, is it not true, General, that by the time a man has been trained and becomes efficient and has some idea of his responsibilities, he is eligible for release from the service?

General HERSHEY. I think that is probably true. We have the same problem everywhere in education. The surgeon is almost to senility by the time he gets to the place that he really has it made. We are going in more and more for longer and longer preparation and younger and younger retirements. I do not know just where they are going to cross.

Mr. OSTERTAG. Military retirement today is getting to the astronomical figure of about $1.5 billion a year.

Mr. THOMAS. That is not the end of it, either.

General HERSHEY. I hope you do not get frightened out of it.

Mr. BOLAND. Is it that high now?

Mr. OSTERTAG. Not quite, but it will be within a year or two.

Mr. THOMAS. It will be higher than that in another 5 years.

DEFERMENT OF MARRIED MEN

Before you leave this subject, General, will you summarize this question which is uppermost in the minds of a good many people. What is the status of a young married man and what is the status of a young married man with children? Here is a college student who

has been deferred while he is going to college, and following the old human desire to get married, the first day some of these youngsters finish college they get married. Are they permanently deferred, and what is their status if they have a child a year or two after that?

General HERSHEY. The fathers we have deferred. The college students we have deferred. The married men at the present time have what amounts to a deferment because they are in low order of priority. In other words, we are taking all single men first.

If we should go on as we are going now, these deferments will amount to permanency, but everybody must remember that if we take the history of even the last 15 years, we have had times when suddenly we found ourselves calling a great many people who thought they had been forgotten.

Again I repeat, the college student is deferred if he is satisfactory, the father is actually deferred, and the husband is put in a lower priority of induction so it amounts almost to deferment.

ACCELERATION OF MARRIAGES DUE TO DEFERMENT

Mr. BOLAND. Has the order exempting the married man from being drafted accelerated marriages among that group of students who have been deferred until they get out?

Genral HERSHEY. We have no figures on that, sir. It is a little early for them. I think normally it probably accelerates marriages, but in the District of Columbia it fell off. I do not have the slightest idea why, but that happened here. I do not think it has any bearing on it one way or the other. It goes to show you can be easily misled by figures.

SUMMARY OF BUDGET ESTIMATE

Mr. SHIPLEY. Mr. Reporter, would you insert in the record pages 1 through 4 of the general statement?

(The pages follow:)

SELECTIVE SERVICE SYSTEM, FISCAL YEAR 1965

GENERAL STATEMENT

There is presented herewith justification for the request of $43,020,000 with which to operate the Selective Service System, the National Advisory Committee on the Selection of Physicians, Dentists, and Allied Specialists, and the National Selective Service Appeal Board during the fiscal year 1965.

The Selective Service System is organized to carry out the primary functions of registration, classification, selection, and presentation for induction in the Armed Forces of the men necessary for maintenance of those forces at the determined strength and by means of deferment, urges men into those occupations and activities necessary to the maintenance of the national health, safety, or interest. It also determines the availability of men for a selective callup from the Standby Reserve. The collateral functions of administration, planning, training, and records management are also performed by this agency.

The use by the Selective Service System of the services of over 48,000 uncompensated officials is unique in Government. These patriotic citizens give the strength to the Selective Service System.

It is inevitable that these uncompensated citizens will become less enthusiastic in their giving of service unless adequate clerical personnel is provided. The request for fiscal year 1965 includes the provision for such services in Project 30.

The Selective Service System, which is decentralized, is organized on a pyramidal structure, the broad base of which is the local and appeal board element

where the contact is maintained with over 27½ million registrants by the uncompensated members of the System and the local and appeal board clerks who staff the 4,046 local boards and the 94 appeal boards. The next largest group is composed of the 56 State headquarters; the relatively small group which comprises the national headquarters is the apex.

The strength of the Selective Service System lies in the fact that classification is the responsibility of those uncompensated civilians living in the communities with the registrants. They have no pecuniary interest in their position but perform their tasks as a patriotic service.

The size of the calls or the number of inductions in any given period directly affects only one cost factor; namely, selectee travel. This estimate for fiscal year 1965 is based on the induction of 100,000 registrants.

Executive Orders Nos. 10166 and 10185 created the National Advisory Committee on the Selection of Physicians, Dentists, and Allied Specialists. Pursuant to these orders, the Selective Service System is required to furnish funds for its operation and provision is included herein.

Executive Order No. 9988 created the National Selective Service Appeal Board. The Selective Service System is required to pay the members of the Board and "to furnish suitable office space and other necessary facilities and service." This requires more personnel in national headquarters to the extent necessary to meet this requirement. This budget includes a request for funds to accomplish this purpose.

The principal factors in this request for an increase in 1965 over 1964 are: (1) The unprecedented increase in new registrations as estimated in the table below based on Bureau of Census figures related to experience. (2) Administrative increases in pay to local board clerks has been provided comparable to those given to classified employees by the pay act. For 1963, this was 18½ pay periods. For 1964, it is provided for the full year plus the additional increase in pay to be effective January 1, 1964, and for 1965 on the basis of the last half of fiscal year 1964. (3) Within grade pay raises for classified employees. Pay act increases are included for classified employees. No additional positions are provided for classified employees.

The following 10-year table shows the experience and projection of the number of new registrations in future years:

Fiscal year	Age 18, year of birth	Census estimate in thousands	Selective Service registration
1962	1944	1,402	[1] 1,512,980
1963	1945	1,397	[1] 1,506,857
1964	1946	1,414	[2] 1,525,847
1965	1947	1,955	[2] 2,109,836
1966	1948	1,811	[2] 1,954,431
1967	1949	1,813	[2] 1,956,590
1968	1950	1,857	[2] 1,980,305
1969	1951	1,902	[2] 2,027,832
1970	1952	1,768	[2] 1,885,395
1971	1953	1,850	[2] 1,972,840

[1] Actual.
[2] Estimated.

Since the submission of the 1964 appropriation, several factors have increased our workload: (1) Department of Defense estimate of 129,000 was revised in August to 147,000; (2) On September 10, childless husbands other than volunteers were put in a delayed call status; and (3) in May of 1963 the standards for acceptance of certain registrants were raised. No official approval of a supplemental has been given, however, if goals are to be met, it is expected that a supplemental appropriation for 1964 will be required.

A request is included for the replacement of motor vehicles. In fiscal year 1964, 22 vehicles will be replaced. For 1965, 13 are being requested for the amount of $23,100. These are: (1) Five automobiles to replace those which have passed both the age and mileage requirements; and (2) eight station wagons, all of which have met the age and mileage requirements.

Our fleet consists of 1 heavy sedan replaced in 1961 and scheduled to be replaced again in 1964, 44 other automobiles, 27 station wagons, and 12 trucks; one of which is 1½ tons, the balance 1 ton or less. The heavy sedan is located

in Washington, D.C., assigned to the Director of Selective Service. The balance of the equipment is in areas where there are no General Services motor pools available. They are principally used by the State directors and the officials of State headquarters for contact with local boards within their respective States. The station wagons are used also to deliver light equipment and supplies to local boards.

HIATUS BETWEEN CENSUS FIGURES AND REGISTRATIONS

Mr. SHIPLEY. General, at the bottom of page 3 you say (reading):

The following 10-year table shows the experience and projection of the number of new registrations in future years.

In 1965, age 18, year of birth, born in 1947, would you explain the differential between the figure 1,955,000 and the number under Selective Service registration, 2,109,836? What makes up the difference?

Colonel ILIFF. The 1,955,000 is the Bureau of the Census figure, their estimate of those males who will turn 18 during the fiscal year. We, under certain circumstances, register aliens. They would not be included in this count.

Mr. SHIPLEY. Are they not registered up to date or kept up to date? Do you not know how many there will be?

Colonel ILIFF. Our estimate is based upon our experience in comparison to the past. Going back to 1962, we had 1,402,000 in the estimate, and we actually registered 1,512,980.

Mr. SHIPLEY. I noticed that, and that is the reason I am asking about this. Is this due to lack of information, or is it strictly due to aliens?

Colonel ILIFF. It is also due to what our statisticians call underenumeration.

Mr. SHIPLEY. Explain that.

Colonel ILIFF. In other words, the figure of the Bureau of the Census is an unevaluated figure, what they would call a raw figure. In other words, they simply projected the count they got when they took the census. They do not take account of the fact they might have underenumeration.

Mr. SHIPLEY. There is a great gap there.

General HERSHEY. We register more than they count. I do not know why, but we do.

Mr. SHIPLEY. We spend a lot of money on the census, and they have all the equipment in the world. I do not see why they could not give you more accurate figures.

General HERSHEY. Even when they counted them, we registered more people in the age group than they counted in the age group.

Mr. SHIPLEY. What is the reason for that? Is it the lack of information?

Mr. BOLAND. It is failure to count all of them, I suppose.

General HERSHEY. A fellow who has an obligation to come in is a little more certain than a fellow you might or might not find.

SUMMARY OF BUDGET BY OBJECT CLASS

Mr. SHIPLEY. Mr. Reporter, please insert in the record page 5.

(The page follows:)

Consolidated summary of objective classification

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions:			
	Civilian	$22,714,627	$23,261,638	$28,153,144
	Military	2,812,267	3,006,000	3,341,780
	Positions other than permanent	3,393,847	3,628,098	3,896,905
	Other personnel compensation	35,031	232,444	162,298
	Total personnel compensation	28,955,772	30,128,180	35,554,127
12	Personnel benefits:			
	Civil service retirement contributions	1,550,238	1,677,900	1,882,020
	Group life insurance contributions	84,855	90,440	93,121
	Federal Insurance Contributions Act taxes	67,371	76,375	78,380
	Health benefits contributions	203,465	214,180	216,580
	Employee suggestion awards	21,786	4,500	
21	Travel and transportation of persons:			
	Administrative travel	675,756	707,000	707,000
	Travel of selectees	1,206,273	2,479,000	1,945,000
	Rental of passenger vehicles	43,148	64,200	63,000
22	Transportation of things:			
	Freight, express, and drayage	69,265	74,500	54,500
	Rental of trucks	2,404	4,100	4,100
	Parcel post (penalty indicia)	49,000	49,000	49,000
23	Rent, communications, and utilities:			
	Communication services	602,575	654,775	654,100
	Rents and utilities	26,961	27,000	275,322
	Penalty mail	694,925	772,050	772,050
24	Printing and reproduction	173,966	189,600	191,400
25	Other services	128,175	118,700	118,200
26	Supplies and materials	223,652	227,000	226,800
31	Equipment	660,074	146,500	135,300
	Total obligations	35,439,661	37,705,000	43,020,000

Mr. SHIPLEY. This is the consolidated summary of objective classification which shows the estimate in 1964 of $37,705,000, and in 1965 of $43,020,000. This makes a total increase of $5,315,000. Is that correct, Colonel?

Colonel ILIFF. Yes, that is correct, roughly.

PROGRAM AND PERFORMANCE

Mr. SHIPLEY. Let the record show the program and performance on page 11.

(The page follows:)

PROGRAM AND PERFORMANCE

The primary purpose of the Selective Service System is effective manpower utilization through classification under the Universal Military Training and Service Act. The System is responsible for supplying men to keep the Armed Forces at their authorized strength and to the extent that their needs are not met by voluntary enlistment. It will be required to supply an estimated 100,000 men for this purpose in 1965 as compared to approximately 147,000 in 1964 and 75,000 in 1963.

1. *National administration, planning, training, and records management.*—The overall administration of the act, including planning, training, and records management, is accomplished by the national headquarters and six regional field offices.

2. *State administration.*—Administration of the act within the several States is the responsibility of the 56 State headquarters operating under the policies determined by national headquarters.

3. *Registration, classification, and induction.*—These functions affecting over 27,500,000 registrants are accomplished by the over 48,000 uncompensated citizens assisted by about 6,000 clerks at over 4,000 boards. These citizens determine who shall be deferred and for how long in the national interest of agriculture, industry, or other pursuits. They also determine the availability for military service of members of the Standby Reserve.

4. *Special boards.*—

(*a*) National advisory committee on the selection of physicians, dentists, and allied specialists: This committee acts in an advisory capacity to the Selective Service System. It is separately administered, but funds are furnished by the Selective Service System from its appropriation.

(*b*) National Selective Service Appeal Board: This Board acts on the classification of registrants which have been appealed to the President. It is under separate administration but the Selective Service System provides funds for its operation.

CONSOLIDATED PERSONNEL SUMMARY

Mr. SHIPLEY. Insert pages 15 through 17 of the green sheets, which is the detail of personnel compensation, listing the number of positions, grades, and salaries.

(The pages follow:)

SALARIES AND EXPENSES

Detail of personnel compensation

	1963 actual		1964 estimate		1965 estimate	
	Number	Total salary	Number	Total salary	Number	Total salary
Grades and ranges:						
Special positions at rates equal to or in excess of $18,000: Director	1	$20,000	1	$20,000	1	$20,000
GS-17. $18,000 to $20,000: Deputy director	1	18,500	1	19,000	1	19,500
GS-16. $16,000 to $18,000: Division chief	1	17,500	1	18,000	1	18,000
GS-15. $15,665 to $19,270:						
Appeal board member	3	46,575	3	50,085	3	50,085
Assistant to director	4	64,020	4	68,840	4	68,840
Assistant to division chief	1	15,045	2	32,875	2	33,905
Assistant general counsel	1	14,565	1	16,180	1	16,695
Chief legislative and liaison officer	1	16,005	1	17,210	1	17,210
Chief medical officer	1	16,005	1	17,210	1	17,210
Chief planning officer	1	16,005	1	17,210	1	17,210
Division chief	5	80,025	5	86,050	5	86,050
State director	18	286,170	18	308,165	18	311,325
The adjutant	1	16,005	1	17,210	1	17,210
GS-14. $13,615 to $17,215:						
Administrative officer	13	183,560	13	194,545	13	194,545
Assistant division chief	5	69,750	4	59,860	4	59,860
Assistant general counsel	2	28,240	2	29,930	2	29,930
Assistant planning officer	1	14,120	1	14,965	1	14,965
Deputy State director	17	240,040	16	239,440	16	239,440
Executive secretary	1	13,270	1	14,515	1	14,965
Field auditors	2	28,240	2	29,930	2	29,930
Historian			1	14,065	1	14,515
Manpower officer	3	42,360	2	29,930	2	29,930
Regional field officer	6	84,720	6	89,790	6	89,790
State director	19	267,855	19	288,385	19	289,915
GS-13. $11,725 to $14,805	116	1,418,595	111	1,431,220	111	1,435,840
GS-12. $9,980 to $12,620	77	799,190	75	822,090	76	835,370
GS-11. $8,410 to $10,650	30	270,500	31	293,750	32	306,080
GS-10. $7,690 to $9,985	11	89,990	14	123,015	13	115,525
GS-9. $7,030 to $9,100	39	287,550	35	275,490	38	303,710
GS-8. $6,390 to $8,280	33	232,540	41	304,620	40	300,540
GS-7. $5,795 to $7,550	141	915,820	140	964,810	144	1,000,450
GS-6. $5,235 to $6,810	114	679,050	112	694,740	109	687,685
GS-5. $4,690 to $6,130	174	926,810	170	945,882	168	942,080
GS-4. $4,215 to $5,475	166	799,346	165	824,295	165	832,125
GS-3. $3,880 to $4,900	185	795,764	185	820,480	184	822,305
GS-2. $3,620 to $4,565	62	234,955	62	243,965	61	244,495
GS-1. $3,305 to $4,250	4	14,660	4	15,005	4	15,425
Ungraded positions at annual rates: Less than $13,615	4,169	17,676,065	4,169	18,001,342	5,841	25,316,470
Ungraded positions at hourly rates equivalent to less than $13,615	19	86,342	19	89,846	19	92,841
Total permanent	5,448	26,825,752	5,440	27,543,940	7,112	34,951,966
Deduct:						
Lapses	112	−886,825	143	−984,580	795	−3,514,912
Excess civilian rates over military		−412,033		−291,722		+57,870
Net permanent (average number, net salary)	5,336	25,526,894	5,297	26,267,638	6,317	31,494,924
Positions other than permanent		3,393,847		3,628,098		3,896,905
Other personnel compensation:						
Regular pay above 52-week base				186,010		120,226
Overtime and holiday pay		6,475		7,500		9,000
Cost differentials and cost-of-living allowance		28,556		38,934		33,072
Total personnel compensation		28,955,772		30,128,180		35,554,127

ADDITIONAL POSITIONS REQUESTED

Mr. SHIPLEY. The jobs listed on page 15 show no change in number of positions, only in salary. These are your top positions. The changes made on page 16 are below grade GS–13. No new classified positions are listed here. You have upgraded some. Is that true, General?

Colonel ILIFF. I think that is true, yes.

Mr. SHIPLEY. I wish you would turn to page 17 briefly, if you will. I see that you have requested 1,672 new positions. Is this correct?

Colonel ILIFF. We have requested that number of positions. However, the lapses from there would mean they would not all be filled for the full year.

Mr. SHIPLEY. But you want 1,672 new positions at any rate. Where will the bulk of these go?

Colonel ILIFF. They all go to local boards. This is due to a 38-percent increase in new registrants.

Mr. SHIPLEY. What grades would these be, mostly?

Colonel ILIFF. They are are not graded employees in our local boards, sir. These are exempt from the Classification Act.

Mr. SHIPLEY. They are paid in comparison to what?

Colonel ILIFF. The pay is set up on the basis of the local pay scales. Sometimes they are high. In the cities where you have a lot of Federal employment, they tend to get to the grades of civil service in their pay scales.

Mr. SHIPLEY. Would you say it was comparable to civil service grades——

Colonel ILIFF. Grades 4 and 5.

Mr. SHIPLEY. That would be a total increase in personnel compensation of $5,426,000, is that correct?

Colonel ILIFF. Yes.

Mr. SHIPLEY. This provides a good list of the grades and salaries.

Mr. THOMAS. The ungraded positions are three-fourths of the employment, and they range around grades 4 and 5. What do they average? Roughly $5,000 per year?

Colonel ILIFF. No, they do not go that high. On page 14 the average salary of ungraded positions is shown as $4,334.

Mr. THOMAS. You set that out on page 14?

Colonel ILIFF. Yes, the last line of the page.

Mr. THOMAS. Average salary of ungraded positions, $4,334 for 1965.

Mr. SHIPLEY. On project 30 on page 23, that is again employees for the local board?

Colonel ILIFF. Yes; that is correct.

Mr. SHIPLEY. The breakdown of the personnel compensation schedule can be picked up as we go into the various projects.

NATIONAL ADMINISTRATION, PLANNING, TRAINING, AND RECORDS MANAGEMENT

Let the record show page 33, a summary of objective classification of Project 10. This shows an overall increase in total obligations from 1964 to 1965 of $86,000.

(The page follows:)

Summary of object classification, project 10

	1963 actual	1964 estimate	1965 estimate
11 Personnel compensation:			
Permanent positions:			
Civilian	$811,745	$916,198	$962,897
Military	702,275	736,752	803,160
Positions other than permanent	4,240	2,000	2,143
Other personnel compensation	3,482	13,250	9,800
Total personnel compensation	1,521,742	1,668,200	1,778,000
12 Personnel benefits:			
Civil service retirement contributions	52,003	59,900	62,770
Group life insurance contributions	2,676	2,800	3,230
Federal Insurance Contributions Act taxes	181	100	100
Health benefits contributions	5,120	5,900	6,300
Employee suggestion awards	2,500	2,500	
21 Travel and transportation of persons:			
Administrative travel	70,402	83,000	83,000
Travel of selectees			
Rental of passenger vehicles	2,045	4,200	3,000
22 Transportation of things:			
Freight, express, and drayage	175	500	500
Rental of trucks	493	600	600
Parcel post (penalty indicia)	1,000	1,000	1,000
23 Rent, communications, and utilities:			
Communication services	27,185	30,000	30,000
Rents and utilities	3,671	4,000	4,000
Penalty mail	31,500	35,000	35,000
24 Printing and reproduction	3,593	17,000	4,000
25 Other services	9,974	5,000	5,000
26 Supplies and materials	24,052	21,500	21,500
31 Equipment	39,975	15,800	5,000
Total obligations	1,798,287	1,957,000	2,043,000

Mr. SHIPLEY. Project 10, beginning on page 34, is the National Administration, Planning, Training and Records Management. We will insert pages 34 through 38.

(The pages follow:)

NATIONAL ADMINISTRATION, PLANNING, TRAINING AND RECORD MANAGEMENT

PROJECT 10

The national headquarters is charged with the overall administration of the act, with preparation of plans for future emergencies, with the designing and putting into effect of a training program and with the management of records required to be kept. To perform these functions the national headquarters has been organized into offices and divisions, each subdivision being charged with certain responsibilities. Included in the following costs are those of the six regional field offices and the fiscal auditors operating in the field.

	1963 actual	1964 estimate	1965 estimate
11. Personnel compensation	$1,521,742	$1,668,200	$1,778,000

The principal cause of the increase in 1965 over 1964 is the increase in the pay of military personnel in effect for the full year. This rate, effective October 1, 1964, is not shown because no supplemental is authorized at the time this request is prepared. The increase for 1965 amounts to $69,000.

No new positions, either civilian or military, are included in this request.

Also included is the civilian pay rate increase effective for only part of 1964 and all of 1965.

	1963 actual	1964 estimate	1965 estimate
12. Personnel benefits:			
Civil service retirement contributions	$52,003	$59,900	$62,770
Group life insurance contributions	2,676	2,800	3,230
Federal Insurance Contribution Act taxes	181	100	100
Health benefits contributions	5,120	5,900	6,300
Employee suggestion awards	2,500	2,500	----------
Total	62,480	71,200	72,400

These benefits are largely tied to civilian payrolls. Most items are based on actual payroll.

	1963 actual	1964 estimate	1965 estimate
21 Transportation of persons:			
Administrative travel	$70,402	$83,000	$83,000
Travel of selectees	----------	----------	----------
Rental of passenger motor vehicles	2,045	4,200	3,000
Total	72,447	87,200	86,000

The principal use of administrative travel is by our fiscal auditors and regional field officers.

The rental of passenger motor vehicles is from GSA. The principal use is in the Washington, D.C. area. However, our 12 regional field offices also use them on occasion. The $1,200 in 1964 over 1965 is for use by the regional field officers in connection with the biennial selective service conferences.

	1963 actual	1964 estimate	1965 estimate
22 Transportation of things:			
Freight, express and drayage	$175	$500	$500
Rental of trucks	493	600	600
Parcel post (penalty indicia)	1,000	1,000	1,000
Total	1,668	2,100	2,100

Rental of trucks is from GSA motor pools in Washington, D.C.

We reimburse the Post Office Department for this amount for parcel post (penalty indicia).

	1963 actual	1964 estimate	1965 estimate
23 Rent, communications, and utilities:			
Communication services	$27,185	$30,000	$30,000
Rents and utilities	3,671	4,000	4,000
Penalty mail	31,500	35,000	35,000
Total	62,356	69,000	69,000

Communication services is largely telephones for national headquarters and the six regional field offices. The increases for 1964 and 1965 reflect the more than doubling of charges on GSA net wire service.

Rents are rental of IBM equipment in national headquarters.

Penalty mail charge is the amount we reimburse the Post Office Department

for carrying our penalty indexes mail. The increases reflect the rate increase for 1964 and 1965.

	1963 actual	1964 estimate	1965 estimate
24 Printing and reproduction	$3,593	$17,000	$4,000

The principal item in this expense is the annual report of the Director to Congress. The increase for 1964 is for publishing monograph No. 18, the last of the series.

	1963 actual	1964 estimate	1965 estimate
25 Other services	$9,974	$5,000	$5,000

A substantial part of this cost is normally for repairs and services on equipment. However, 1963 included having material run from the 1 percent sample survey to furnish information to the Department of Defense in support of their request for extension of the general authority to induct.

	1963 actual	1964 estimate	1965 estimate
26 Supplies and materials	$24,052	$21,500	$21,500

No substantial change is contemplated.

	1963 actual	1964 estimate	1965 estimate
31 Equipment	$39,975	$15,800	$5,000

1964 includes the sedan at $3,000 for the use of the Director.

Mr. SHIPLEY. This activity is carried on in the offices and the regions and national headquarters. There are six regional field offices. There is an increase of $69,000 for the pay of military and some civilian pay raise effective for a part of 1964 and all of 1965. There are no new positions.

Colonel ILIFF. That is correct.

Mr. SHIPLEY. On page 35, you list the personnel benefits. The increase there is $1,200 based on the increased payroll of the civilians.

TRAINING PROGRAM

Mr. THOMAS. How valuable is your training program? How long do the courses last and what courses do you have? You have had this training program every year, year in and year out. What are you training them to do? Let us get a record on this.

General HERSHEY. We have about 1,500 earmarked individuals who are paid by the Armed Forces, but we do have to pay the trainers, purchase the material, and so on. First of all, we run extension courses which require some personnel and some paper. It is not a very expensive method of education. Our earmarked officers are required to meet minimum standards of completing at least a course a year or we do not retain them.

In addition to that, each year the Armed Forces furnish the money to have these individuals have 1 drill night a week, and 2 weeks on active duty. We supervise the program. This year happens to be what we call a conference year.

Mr. THOMAS. Are these all Reserve officers?

General HERSHEY. They are, including the National Guard. About 500 of them are in the National Guard. They are Reserves.

Mr. THOMAS. You figure you give them active training about 2 or 3 weeks a year?

General HERSHEY. Two weeks.

Mr. THOMAS. It is all by extension courses?

General HERSHEY. No. The extension courses are separate.

Mr. THOMAS. In addition to the 2 weeks of active duty.

What does it cost you to train one of these?

General HERSHEY. What it costs us?

Mr. THOMAS. Yes. Do you reimburse the military?

General HERSHEY. No.

Mr. THOMAS. What do you pay?

General HERSHEY. We pay the people who train them, and their mileage.

Mr. THOMAS. But you do not pay the National Guard or the Reserves?

General HERSHEY. No.

Mr. THOMAS. You pay the cost of operating the extension courses and the instructors?

General HERSHEY. That is right.

Mr. THOMAS. What does that cost you per trainee?

General HERSHEY. We have about 1,500.

Colonel ILIFF. I do not have the training figure broken down, but we can see roughly what it costs, for example, to have the faculty at these conferences. That costs in the neighborhood of $20,000.

Mr. THOMAS. You have about $1.8 million set up here for it.

Colonel ILIFF. But that includes all the other things that national headquarters does, sir.

General HERSHEY. This is the management, also.

ITEMS INCLUDED IN PROJECT 10 BUDGET

Mr. THOMAS. Break it down. Give us a little idea how much money you are spending for each one of these. You have two or three projects here.

General HERSHEY. I think we had better furnish that, because if we go to shooting from the hip here, we may not be accurate.

Mr. THOMAS. What are you getting for your $1.8 million?

General HERSHEY. I would be glad to speak to that.

In the first place, any time we have to expand——

Mr. THOMAS. Does this cover all your recordkeeping?

Colonel ILIFF. In the national headquarters, yes.

Mr. THOMAS. Where is the field office expense covered?

Colonel ILIFF. That is part of the national headquarters project, sir.

General HERSHEY. We have 12 regional officers.

Mr. THOMAS. Six or twelve?

General HERSHEY. Six places, but 12 officers. There are two officers in each.

Mr. THOMAS. What is the cost for the six field offices and the headquarters offices?

General HERSHEY. The salaries of the national headquarters are shown. The field offices are included because they are part of national headquarters.

Mr. THOMAS. In order to get the complete picture, you have to summarize projects 10 and 20, do you not?

Colonel ILIFF. Not 20. Project 20 is our State headquarters setup.

Mr. THOMAS. What part does your State headquarters play with the national headquarters in this project?

General HERSHEY. Every other year we send officers to be trained in the State headquarters, but I would not consider the State headquarters cost much money to train these officers.

Mr. THOMAS. In other words, the function is not intermingled with the State and national headquarters?

General HERSHEY. What little we get out of the State I would not consider a factor.

Mr. THOMAS. In order to break down the functions of the national headquarters, you have to go back and complete the record, is that it? Your overall cost in round figures is about $1.758 million this year, which is a little increase over last year, and it includes the operation——

General HERSHEY. Of the national headquarters, all of our regional offices, and the training.

Mr. THOMAS. Correspondence courses?

General HERSHEY. The training. Not only that, all the planning that goes on with other agencies of government. That is all in here.

Mr. THOMAS. What do you figure your overall personnel load is? I do not see that figure here.

Colonel ILIFF. The national headquarters has 185 people.

Mr. THOMAS. In the regional offices, too?

Colonel ILIFF. Yes, sir.

REGIONAL OFFICES

Mr. THOMAS. How many people are in your six field offices?

Colonel ILIFF. We have 12 officers.

Mr. THOMAS. Twelve of your 185?

Colonel ILIFF. We have 18 including civilians.

Mr. THOMAS. Where are those field offices? I remember going to one. I think it was in New York. That is about the only one I have been to.

General HERSHEY. There is one, which we should probably name first, in Dallas. There is one in San Francisco, one in Chicago, one in Atlanta, one in Hagerstown, Md. I never can think of the little town up in New Hampshire—Lebanon. It was in Boston, but when we got into this abandoning business we moved it out to Lebanon and left it there.

Mr. THOMAS. What is the function of those regional offices?? The one in New York is over on Wall Street, as far as I can recall.

Colonel ILIFF. That was probably the city headquarters, sir.

General HERSHEY. The regional office is not in New York. It is in Lebanon. These two offices have two officers and one clerk.

First of all, if you divide 6 into 1,500, you get 200-and-some officers in each of these areas who are reservists and are being trained. That is the responsibility of this field officer.

Mr. THOMAS. Exactly what is the course of instruction? We have gone into this time and time again.

General HERSHEY. If we order these officers to active duty tomorrow, these men should be able to take a secondary position in any division and operate it without further instruction, because that is what they are trained for.

Mr. THOMAS. If you were to call them, where would they be? In the National headquarters or State headquarters?

General HERSHEY. Our State headquarters would have to expand anywhere from 100 to 200 percent. Our field offices would get some additional, and national headquarters would get a few of them.

One of the things we have worried about, maybe unnecessarily——

Mr. THOMAS. Would these people go to the State or National headquarters?

General HERSHEY. Both. They are the backup of all of them.

Mr. THOMAS. They are supposed to be able to do anything that is to be done in the field?

General HERSHEY. That is right. Many of them have already served on active duty.

Mr. SHIPLEY. We are on page 36, transportation of persons, under national administration, planning, training, and records management.

SELECTIVE SERVICE CONFERENCES

The administrative travel is the same as it was in 1964. There is a reduction of $1,200 in the rental of passenger motor vehicles. The reason for this reduction in 1965 is that this was for the use of the regional field officers in connection with the bienniel selective service conferences. What do they do at these conferences, General?

General HERSHEY. This is back to the training. These are the 2-week conferences. For instance, one just finished last week in San Diego. We had about 100 officers there. We sent out three or four instructors.

They are talking about saving a little money next year because these people will be sent to State headquarters and therefore no instructors will be going out.

We run a program trying to illustrate different phases. I might give you one example. This year we have had the last two conferences working on how the Selective Service System would run a series of evaluations or examinations of 18-year-olds if we happened to be stuck with that after the 1st of July of this year. That is pressing on us at the present time. One part of the business of these two conferences was to set up the machinery by which the Selective Service System would attempt, with unpaid people, to get examinations, physically and mental, done on the 18-year-olds if we should find them in our laps, with the Armed Forces not having enough money to examine them.

This is not a trip to the moon. This is something that I am a little afraid we will be caught with.

We have tried at times at State headquarters to put a group of these people in and tell them, "You are the State headquarters, and what

would you do if the State headquarters had been wiped out by a bomb or something else and you tried to reconstruct the State headquarters?

OTHER EXPENSES—PROJECT 10

Mr. SHIPLEY. "Transportation of things" remains the same as it was in 1964, $2,100.

Under "Rent, communications and utilities," you show $30,000 for communication services. Is the increase from 1963 to 1964 due to GSA?

Colonel ILIFF. No. This rental is rental of equipment in national headquarters. It is not a space rental figure.

Mr. SHIPLEY. The figure is $69,000 for 1965, the same as it was in 1964, under "Rent, communications and utilities."

In "Printing and reproduction," you have a $13,000 decrease this year because you finished publishing monograph No. 18, the last of the series.

"Other services" is $5,000 and that remains the same. A substantial part of this cost is normally for repairs and services on equipment.

SURVEY FOR DEPARTMENT OF DEFENSE

The year 1963 included having material run from the 1-percent sample survey to furnish information to the Department of Defense in support of their request for extension of the general authority to induct. What did you learn from this survey?

Colonel ILIFF. They asked us to determine certain questions for them in connection with their request. This covers the cost of having the material run to get the figures.

Mr. SHIPLEY. Did you learn anything from the survey? What kind of questions did you ask?

General HERSHEY. We ran it during the time there was a request for extension of the legislation. I do not remember exactly what it was.

Mr. SHIPLEY. You just furnished the material for it?

General HERSHEY. Yes. I think they asked three or four specific questions. One was to make a 1-percent survey of our System on those 1-percent things.

Mr. SHIPLEY. I was aware of the survey. I wondered what the questions were.

General HERSHEY. We can furnish that.

(The information supplied follows:)

About every 6 months the Department of Defense makes a study of Selective Service registrants by year of birth. It does this among other things to determine the current and expected yield for military service for each year of age. Of value also to Defense is the year-of-birth picture for men examined and found qualified or not qualified for active duty with the Armed Forces, and the deferment situation by age. All of these analyses are of present and potential significance in the field of military and civilian manpower.

The most readily available data for these studies of registrants and their classifications by the local boards of the System, are those of the agency's 1-percent sample inventory. In fact, the electric accounting machine, keypunch cards and electronic computer magnetic tape of this inventory are the only source for such information outside of the 100-percent coverage of men in the local boards.

Mr. SHIPLEY. "Supplies and materials" stays the same, $21,500. There is no substantial change contemplated in these funds.

Under equipment you have a reduction of $5,000.

Colonel ILIFF. One was a $3,000 reduction because of the Director's car to be purchased this year. This shows odds and ends of equipment.

Mr. SHIPLEY. What is the remaining $2,000 for? I refer to $2,000 of the $5,000.

Colonel ILIFF. Equipment for 1965 is $5,000; the cars are to be purchased in 1964. That is why it would be reduced to $12,800. It results from purchase of equipment. We are not buying new equipment.

PERSONNEL—PROJECT 10

Mr. SHIPLEY. Insert pages 18, 19, and 20.

(The pages follow:)

PROJECT 10

Detail of personnel compensation

	1963 actual		1964 estimate		1965 estimate	
	Number	Total salary	Number	Total salary	Number	Total salary
Grades and ranges:						
Special positions at rates equal to or in excess of $18,000: Director	1	$20,000	1	$20,000	1	$20,000
GS-17. $18,000 to $20,000: Deputy director	1	18,500	1	19,000	1	19,500
GS-16. $16,000 to $18,000: Division chief	1	17,500	1	18,000	1	18,000
GS-15. $15,665 to $19,270:						
Assistant to director	4	64,020	4	68,840	4	68,840
Assistant division chief	1	15,045	2	32,875	2	33,905
Assistant general counsel	1	14,565	1	16,180	1	16,695
Chief legislative and liaison officer	1	16,005	1	17,210	1	17,210
Chief medical officer	1	16,005	1	17,210	1	17,210
Chief planning officer	1	16,005	1	17,210	1	17,210
Division chief	5	80,025	5	86,050	5	86,050
The adjutant	1	16,005	1	17,210	1	17,210
GS-14. $13,615 to $17,215:						
Assistant division chief	5	69,750	4	59,860	4	59,860
Assistant general counsel	2	28,240	2	29,930	2	29,930
Assistant planning officer	1	14,120	1	14,965	1	14,965
Field auditors	2	28,240	2	29,930	2	29,930
Historian			1	14,065	1	14,515
Manpower officer	3	42,360	2	29,930	2	29,930
Regional field officer	6	84,720	6	89,790	6	89,790
GS-13. $11,725 to $14,805	27	329,520	25	320,460	25	321,615
GS-12. $9,960 to $12,020	7	71,365	6	65,160	7	75,470
GS-11. $8,410 to $10,650	5	45,260	6	56,340	7	66,990
GS-10. $7,690 to $9,985	4	32,835	7	61,535	6	53,250
GS-9. $7,030 to $9,100	15	108,225	11	84,230	14	109,460
GS-8. $6,390 to $8,280	5	35,370	13	95,460	12	88,860
GS-7. $5,795 to $7,550	20	127,820	19	126,665	21	141,850
GS-6. $5,235 to $6,810	31	181,075	29	174,740	24	148,035
GS-5. $4,690 to $6,130	14	72,870	10	53,300	10	54,260
GS-4. $4,215 to $5,475	9	40,105	8	37,360	8	37,835
GS-3. $3,880 to $4,900	10	39,845	10	41,305	10	42,270
GS-2. $3,620 to $4,565	1	3,560	1	3,725	1	3,830
Ungraded positions at hourly rates equivalent to less than $13,615	12	62,400	12	65,624	12	68,619
Total permanent	197	1,711,355	194	1,784,159	194	1,813,124
Deduct:						
Lapses	10	−94,070	3.5	−41,654	5	−37,732
Excess civilian rates over military		−103,265		−89,555		−9,335
Net permanent (average number, net salary)	187	1,514,020	190.5	1,652,950	189	1,766,075
Positions other than permanent		4,240		2,000		2,143
Other personnel compensation:						
Regular pay above 52-week base				7,250		3,800
Overtime and holiday pay		3,482		6,000		6,000
Cost differentials and cost-of-living allowance						
Total personnel compensation		1,521,742		1,668,200		1,778,000

Mr. SHIPLEY. Insert in the record page 39.
(The page follows:)

PROJECT 20

Summary of objective classification

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions:			
	Civilian	$3,597,265	$3,814,252	$3,972,056
	Military	2,109,992	2,269,248	2,538,620
	Positions other than permanent	73,157	75,000	85,000
	Other personnel compensation	22,001	57,800	42,324
	Total personnel compensation	5,802,415	6,216,300	6,638,000
12	Personnel benefits:			
	Civil service retirement contributions	229,177	252,000	256,800
	Group life insurance contributions	11,890	13,000	13,500
	Federal insurance contribution act taxes	1,881	2,200	2,200
	Health benefits contributions	25,613	28,000	28,000
	Employee suggestion awards	4,248	1,000	
21	Travel and transportation of persons:			
	Administrative travel	92,196	125,000	125,000
	Travel of selectees			
	Rental of passenger vehicles	17,952	27,000	27,000
22	Transportation of things:			
	Freight, express, and drayage	3,904	4,000	4,000
	Rental of trucks	443	1,500	1,500
	Parcel post (penalty indexes)	3,000	3,000	3,000
23	Rent, communications, and utilities:			
	Communication services	85,470	98,000	98,000
	Rents and utilities	9,798	13,000	13,000
	Penalty mail	94,500	105,000	105,000
24	Printing and reproduction	8,548	12,000	12,000
25	Other services	40,418	38,000	38,000
26	Supplies and materials	54,571	30,000	30,000
31	Equipment	120,878	30,000	30,000
	Total obligations	6,606,902	6,999,000	7,425,000

Mr. SHIPLEY. Insert pages 40 to 43 which covers the justification for "State Administration, Planning, Training, and Records Servicing."
(The pages follow:)

STATE ADMINISTRATION, PLANNING, TRAINING, AND RECORDS SERVICING

PROJECT 20

The Universal Military Training and Service Act of 1951, as amended, in section 10(a)(2) requires the establishment of at least one State headquarters in each State, territory, and possession of the United States. There have been established 56 such headquarters. The function of State headquarters is to administer the act within the respective States in compliance with the law, regulations, and directives of national headquarters. In general, the primary administration and responsibilities of each State headquarters are as follows:

(1) To establish and maintain local boards and appeal boards including arranging for office space, office equipment, securing competent personnel, and the selection for recommendation by the Governor of potential local board and appeal board members for either original appointment or as replacements for members lost.

(2) To inform and instruct new local and appeal board members and clerks in the existing regulations, policies, and administrative procedures; then to continually inform and instruct local and appeal board members and clerks concerning local manpower situations and changes in regulations, policies, and administrative procedures.

(3) To allocate calls to the local boards within the State on the basis of availability and quotas established from records of manpower available for service and those already in the service. To do this records must be maintained

of men available for service, men already delivered for service, men deferred in all classes and credits to the various communities for men in the armed services. Records must also be maintained to insure the deferment of men needed in agriculture, industry, and the national health, safety or interest. Such problems vary in the several States. To know the needs of agriculture, industry, etc., it is necessary that close liaison be maintained between the State headquarters and these various fields of employment.

(4) To allocate funds received and operate within the fiscal limitations so established. To pay all liabilities incurred by both State headquarters and the local boards within the State. To process all personnel appointment papers. To arrange for the most economical method of transportation for registrants and arrange for delivery of men to the examining and induction stations in numbers not exceeding the daily capacity of the station. This may only be accomplished by the proper coordinating of schedules with the Armed Forces and the assigning of delivery dates to the various local boards.

(5) To act as custodian and servicing agent of records. There are 54 Federal record depots in which are housed the remaining records of all registrants of World War II operations. The work of the depot consists of (1) answering requests for information, (2) the servicing of records, and (3) the destruction of records when authorized.

(6) To receive from the several services the notification of transfers of personnel to the Standby Reserve; to locate the local board of jurisdiction within the State; to assign the reservist to the appropriate local board and to maintain a record of the availability for selective callup of reservists as established by the local board pursuant to Public Law 305, 84th Congress.

(7) To plan for manpower procurement in general conformity with the national program as adapted to the unique problems within the State.

(8) To maintain and keep current a plan for the operation of the State headquarters and local and appeal boards in event of a catastrophe, including cooperative planning with adjoining States. Also to maintain a plan for an all-out emergency expansion. The number and location of the additional local boards, which would be required under such an emergency, have been established, lists of potential local board members are maintained, records of present registrants are so numbered that should expansion become necessary the records to be transferred to any particular local board are readily identifiable.

(9) To develop and maintain a fully adequate program of training to provide a reserve of officers and civilians who will be able and willing to fill a position in the System should it become necessary to expand.

	1963 actual	1964 estimate	1965 estimate
11 Personnel compensation:			
Permanent positions:			
Civilian	$3,597,265	$3,814,252	$3,972,056
Military	2,109,992	2,269,248	2,538,620
Positions other than permanent	73,157	75,000	85,000
Other personnel compensation	22,001	57,800	42,324
Total personnel compensation	5,802,415	6,216,300	6,638,000

The increase in military personnel costs for 1965 is due to the pay raise effective October 1, 1964, for military personnel. This is not included in 1964 because no supplemental is authorized at the time this request is prepared. The increase for 1965 amounts to $248,000.

Also included is the civilian pay rate increase effective for only part of 1964 and all of 1965. No new positions either civilian or military are included.

Mr. SHIPLEY. On page 43 we have "Personnel compensation." We have an increase in the total dollars in permanent positions. In civilian employment there is an increase of $158,000. The military increase is $269,000. Are both of these items due to pay increases?

Colonel ILIFF. They both involve pay increases. There are no new positions.

PAY ACT COSTS

Mr. THOMAS. What did you figure the pay increase cost you, $248,000? Is that a firm figure?

Colonel ILIFF. That is for the military personnel.

General HERSHEY. Within the States.

Colonel ILIFF. Within the States; yes, sir.

Mr. THOMAS. We are talking about the headquarters. Break down the costs now for the State headquarters, National headquarters, and the local draft boards. What did the pay increase cost you this year?

Colonel ILIFF. 1964 or 1965, sir?

Mr. THOMAS. 1964 is water over the dam unless you are coming for a supplemental. You indicate you may come in for a deficiency.

Does this amount to 2 percent of the payroll for 1965?

Colonel ILIFF. No, sir; the pay increase is based upon the actual grades.

Mr. THOMAS. I am talking now about the civilians. You gave them the same as the civil service employees got, did you not?

Colonel ILIFF. These are civil service employees. This is State administration.

Mr. THOMAS. What is the total pay increase in the 1965 budget? Break it down in the three component parts. Can you do that? Is $248,000 correct?

General HERSHEY. That is the military increase.

Mr. THOMAS. How about the civilian?

Colonel ILIFF. It would be the difference between the two.

Mr. THOMAS. We are talking about one item alone now, the pay increase. Are the military personnel subject to the pay increase, too?

General HERSHEY. Yes; two bills passed last fall.

Colonel ILIFF. Civilian pay increase shows $158,000.

Mr. THOMAS. That covers what, military and civilian?

Colonel ILIFF. Civilian; it is $248,000 for the military.

Mr. BOLAND. $258,000 for the national headquarters alone?

Colonel ILIFF. This is State headquarters alone.

Mr. THOMAS. You came up with a figure in the neighborhood of $416,000 just for pay increase. That is a little high. You had better check the figures again.

Colonel ILIFF. It is $158,000 for the civilian; the military is $248,000.

General HERSHEY. That is in the States alone.

Mr. SHIPLEY. What would be the other? There must be more money there, then.

Mr. THOMAS. About twice as high as the civilians, so that may account for it.

What was the military pay increase?

Colonel ILIFF. $248,000.

Mr. THOMAS. Percentagewise?

Colonel ILIFF. It was not a percentage, sir; but based on the different grades.

General HERSHEY. About 5 percent.

Mr. THOMAS. Most of the civilian agencies come to about two and a half percent of the civilian payroll.

The military pay is about twice as high as the civilian, almost twice as high, and the number is considerably less, is it not?

What is the number of military in the State headquarters?

Colonel ILIFF. 190 in the State headquarters.

Mr. THOMAS. Military?

Colonel ILIFF. Yes, sir.

Mr. THOMAS. How many civilian?

Colonel ILIFF. 675.

Mr. THOMAS. Three times the number of civilians as you have military. Yet the military pay is about 40 percent higher than the civilian.

Colonel ILIFF. The one military pay increase for 6 years is shown. There have been three civilian increases.

Mr. THOMAS. We are not questioning that. We want the figures.

General HERSHEY. One is about two and a half percent and the other about 5. That makes a difference.

Mr. THOMAS. Excuse me, Mr. Shipley; go ahead.

OTHER EXPENSES—PROJECT 20

Mr. SHIPLEY. On page 44 you show personnel benefits. There is a small change there. This is due to benefits tied to civilian payrolls.

I see you have nothing for the employee suggestion awards for 1965.

Travel and transportation of persons, on page 45, shows no change.

Administrative travel is shown and no increase requested over 1964. There is a limitation item distributed in 56 different places.

There are no questions on this.

There is no change in transportation of things, $8,500.

There is rental of trucks which covers GSA rentals and not many offices requires this truck service.

COMMUNICATIONS COST

Rent, communications, and utilities is the same as last year, $216,000. You state 95 percent of communications services is telephone cost. Telephone rates continue to increase and the GSA net has more than doubled wire charges.

Colonel ILIFF. GSA has the teletype communication network that all departments use.

Mr. SHIPLEY. Yes; GSA handles that.

Colonel ILIFF. We have to pay GSA double what we used to pay.

Mr. BOLAND. What amount is put in this item as a result of that?

Colonel ILIFF. I can furnish the figure.

(The information supplied follows:)

Commencing on May 1, 1963, the General Services Administration charge for traffic via their circuits was 0.015 (15 mills) per text word. The new proposed rate commencing July 1, 1964, will be 0.033 (33 mills) per text word.

Mr. BOLAND. You say the amount has doubled?

Colonel ILIFF. Yes, sir; the rate has doubled; let us put it that way.

Mr. BOLAND. Are you talking more these days?

General HERSHEY. There is no question about the fact that in the last 6 months you do not send 400,000 people to induction stations with the same amount of talk as you did with 10,000, 15,000, or 20,000. We have people telephoning from Congress and a hundred other places where people are being touched. Whenever you have a mass of people going in there is a lot of talking.

Mr. BOLAND. That is right. You think we should say that the telecommunications system is actually saving your agency money?

Colonel ILIFF. Yes.

Mr. BOLAND. Have you any idea of the saving?

Colonel ILIFF. As I recall it is about one-third of the cost of commercial service, even at these advanced rates. I think they were not getting full reimbursement. That is why they put up their rates.

Mr. SHIPLEY. There was considerable comment on this and I wanted your views on it.

On printing and reproduction there is no change, $12,000 for 1965. This is basically for franked envelopes.

Other services is next, and it is the same as in 1964. This item is mostly repairs on equipment, miscellaneous repairs.

I see $1,200 for reimbursement to the Department of Labor for payments from the workmen's compensation fund. How does that come about?

Colonel ILIFF. Where we have reimbursement under workmen's compensation funds, the Department of Labor pays it and they bill us.

Mr. SHIPLEY. Supplies and materials stays the same. This will provide only for current replacement of supplies.

For equipment you request $30,000, the same as for 1964. The principal item requirements for 1965 are 200 five-drawer filing cabinets at $11,000; 100 storage cabinets at $5,000; 6 calculating machines at $3,000; 250 filing shelves at $6,975, and over 100 miscellaneous items at $4,025.

REGISTRATION, CLASSIFICATION, AND INDUCTION

Next we go to page 49, which is Project 30. You show an overall obligation increase of $4,803,000. Is that right, Colonel Iliff?

Colonel ILIFF. That is correct.

Mr. SHIPLEY. Insert pages 49 through 53 in the record.

(The pages referred to follow:)

PROJECT 30

Summary of objective classification

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions:			
	Civilian	$18,260,987	$18,472,728	$23,158,771
	Military			
	Positions other than permanent	3,311,243	3,532,388	3,789,912
	Other personnel compensation	9,548	161,134	110,044
	Total personnel compensation	21,581,778	22,166,250	27,058,727
12	Personnel benefits:			
	Civil service retirement contributions	1,267,448	1,364,000	1,560,450
	Group life insurance contributions	70,203	74,500	76,251
	Federal insurance contributions act taxes	64,658	73,000	75,000
	Health benefits contributions	172,537	180,000	182,000
	Employee suggestion awards	15,038	1,000	
21	Travel and transportation of persons:			
	Administrative travel	504,805	485,000	485,000
	Travel of selectees	1,206,273	2,479,000	1,945,000
	Rental of passenger vehicles	23,151	33,000	33,000
22	Transportation of things:			
	Freight, express, and drayage	65,186	70,000	50,000
	Rental of trucks	1,468	2,000	2,000
	Parcel post (penalty indicia)	45,000	45,000	45,000
23	Rent, communications, and utilities:			
	Communications services	488,812	525,000	525,000
	Rents and utilities	13,492	10,000	258,322
	Penalty mail	568,125	631,250	631,250
24	Printing and reproduction	161,517	160,000	175,000
25	Other services	77,783	75,000	75,000
26	Supplies and materials	144,788	175,000	175,000
31	Equipment	497,975	100,000	100,000
	Total obligations	26,970,037	28,649,000	33,452,000

REGISTRATION, CLASSIFICATION, AND INDUCTION

PROJECT 30

The Selective Service System, operating under the provisions of the Universal Military Training and Service Act, as amended, exists for the primary purpose of making possible the most effective utilization of the manpower resources of the United States. The accomplishment of this mission requires varied and sundry functions, the most important of which are registration, classification, selection, and delivery for induction of the male citizens of the United States who by age are subject to the requirements contained in the act.

The above functions are carried on in the local boards which are composed of little groups of neighbors on whom is placed the responsibility to determine who is to serve the Nation in the Armed Forces and who is to serve in industry, agriculture, and other deferred classifications. These members of the local board serve in an uncompensated capacity and are assisted by other uncompensated citizens known as advisers to registrants, Government appeal agents, and medical advisers, totaling in all 47,000. The function of classification in certain cases is carried over to the State appeal boards whose members are also uncompensated citizens of the communities they represent and at present number nearly 600. To assist these 48,000 uncompensated citizens in the performance of their duties, it is necessary to provide clerical help, space, supplies, etc., which are the supporting facts of this portion of the budget estimate.

In studying the funds requirements for Project 30, it is most necessary that full realization be secured of the unique use by the Selective Service System of the services of some 48,000 uncompensated citizens who under the law make the classification and selection of those who are to serve in the Armed Forces and select those whose military obligation is to be postponed in support of the

national health, safety, or interest. There are 4,166 local and appeal boards, including appeal board panels, at which these people serve giving the necessary part of their time to serve the Nation with realization of such service being their only reward. To retain that service, it is a fundamental precept that adequate clerical assistance must be furnished.

In May 1963 a carefully supervised work measurement study, developed with the assistance of the Bureau of the Budget staff, was conducted in nine States. A similar study was made in Colorado, Georgia, and Michigan in 1960 and in Georgia in 1958. The results of these studies serve as a basis for the following estimate of work units, man-years required to process them, and the personnel costs for local boards of the entire Selective Service System.

On the basis of this study, it will be seen that in order to meet the workload requirements, it was necessary to secure in 1963 from local board clerks, 35 man-years of time for which they could not be compensated.

	1963 actual	1964 estimate	1965 estimate
11 Personnel compensation:			
Permanent positions:			
Civilian	$18,260,987	$18,472,728	$23,158,771
Military			
Positions other than permanent	3,311,243	3,532,388	3,789,912
Other personnel compensation	9,548	161,134	110,044
Total	21,581,778	22,166,250	27,058,727

The table on the following page shows the requirements as related to the work measurement study. The amounts reflect the administrative pay raises given to local board clerks comparable to those of the pay raise granted classified employees by the Congress. Traditionally this has been done. Usually the civilian pay raises have been retroactive and the Congress has granted authority for retroactive pay to those not being paid under the Classification Act.

The positions other than permanent cover part-time employees and WAE payments.

Other personnel compensation covers differential in the States of Alaska and Hawaii and possessions. This item also covers overtime pay and, in the years in which they occur, extra days' pay.

In the study of the nine States, a report was made of the official work performed by local board clerks for which they were not compensated. It amounted to 1.1 percent of the amount of time for which compensation was paid.

In order to handle the workload for 1963, clerks gave 35 man-years of of uncompensated time. It will be noted that in the comparative summary statement by function that this was taken into account in arriving at the total amount.

In view of the increased workload for 1964, financing of which is planned by a supplemental appropriation not yet approved, the compartive statement shows on the next to the last line 483 man-years of clerical time contributed at a value of over $2 million.

In 1965, again, 480 man-years are shown with a value of over $2 million.

Mr. SHIPLEY. This is the justification for "Registration, Classification and Induction, Project 30."

Please insert the green sheets for Project 30.

(The material referred to follows:)

PROJECT NO. 30

Detail of personnel compensation

	1963 actual		1964 estimate		1965 estimate	
	Number	Total salary	Number	Total salary	Number	Total salary
Grades and ranges:						
GS-11. $8,410 to $10,650	2	$18,475	2	$16,242	2	$19,900
GS-10. $7,690 to $9,985	1	7,780	1	8,455	1	8,455
GS-9. $7,030 to $9,100	11	81,525	11	86,990	11	88,600
GS-8. $6,390 to $8,280	25	176,440	25	187,260	25	188,940
GS-7. $5,795 to $7,550	63	410,070	63	436,295	64	446,395
GS-6. $5,235 to $6,810	25	141,929	25	157,825	25	158,525
GS-5. $4,690 to $6,130	28	143,980	28	155,338	28	158,011
GS-4. $4,215 to $5,475	9	42,649	9	46,900	9	45,915
GS-3. $3,880 to $4,900	7	29,985	7	30,919	7	31,310
GS-2. $3,620 to $4,565	2	7,645	2	7,870	2	7,975
Ungraded positions at annual rates:						
Less than $13,615	4,169	17,676,065	4,169	18,001,342	5,841	25,316,470
Total permanent	4,342	18,736,543	4,342	19,135,436	6,015	26,470,496
Deduct: Lapses	59	−475,556	110	−662,708	764	−3,311,725
Net permanent (average number, net salary)	4,283	18,260,987	4,232	18,472,728	5,251	23,158,771
Positions other than permanent		3,311,243		3,532,388		3,789,912
Other personnel compensation:						
Regular pay above 52-week base				145,000		100,544
Overtime and holiday pay		1,335		1,500		1,500
Cost differentials and cost-of-living allowance		8,213		14,634		8,000
Total personnel compensation		21,581,778		22,166,250		27,058,727

Mr. BOLAND. Can we get the cost of the pay increase? You said $158,000 was for State boards. That does not include local boards?

Colonel ILIFF. That is right.

Mr. BOLAND. This is the large activity in the System. What is the cost of the pay increase for 1965 as a result of this activity, Project 30? What will it cost in 1965 for the pay increase for local boards, just the civilians? We are not interested in military.

General HERSHEY. There are no military.

Colonel ILIFF. There is no military involved here.

The big increase is the increased workload through registration.

Mr. BOLAND. We want to know what the pay increase is. It should be simple to determine that.

Colonel ILIFF. If we take the 1964 figure on the employees and how much their increase is——

Mr. BOLAND. Give us both figures.

General HERSHEY. The difference between these 2 figures is accounted for by the increase of those we already have and the hiring of about 1,000 additional positions. That accounts for the difference between $18,472,000 and the $23,158,000.

Colonel ILIFF. That is correct.

Mr. BOLAND. What will the pay increase cost you in 1965 for the number of people who are on board now, the number of employees you now have without additional personnel added in 1965? What is the cost of the pay increase in 1965?

BREAKDOWN OF INCREASED PERSONNEL COSTS

Mr. JONAS. Before he answers that, may I ask you to yield to let me suggest that they add something else?

I would like that same information, and then I would like to know what the additional employees are going to cost, and I would like you to put in a little table, with your permission, Mr. Boland, at the end of the testimony, breaking down the $5 million increase being asked for.

It is in the justification but it is not assembled at one particular point.

Would you be willing to have him do that?

Mr. SHIPLEY. Yes, that would be fine.

Colonel ILIFF. $553,000 covers those presently on board.

Mr. BOLAND. $553,000 is the figure which indicates the salary increase as a result of the pay increase of those who are now on board?

Colonel ILIFF. Yes, sir.

Mr. BOLAND. Then Mr. Jonas wants the salary increase—you anticipate putting on 1,000 more on local boards?

Colonel ILIFF. Yes.

Mr. BOLAND. What is the average salary?

General HERSHEY. It was $4,300.

Mr. JONAS. How much of this $5 million increase do you allocate for new employees? How much do you allocate for the automatic pay increase? How much do you allocate for the ingrade promotions? How much do you allocate for travel? Break the $5 million increase down into one table.

Can you do that?

Colonel ILIFF. Yes, very easily.

Mr. BOLAND. Supply it for the record.

Colonel ILIFF. Yes, I will have to do that.

(The information supplied follows:)

Personnel cost increases, 1965 over 1964

	P-10	P-20	P-30	P-40	P-50	Total
Military pay rate	$69,000	$248,000				$317,000
Civilian pay scale	$19,129	$82,227	$186,477	$1,300	$670	$289,803
Civilian within-grade raises	$26,671	$74,473				$101,144
Man-years	(−1.5)	(4.5)	(1,076)			(1,079)
Added employment	−$5,000	$17,000	$4,706,000			$4,718,000
Total	$109,800	$421,700	$4,892,477	$1,300	$670	$5,425,947

NOTE.—The small increase in man-years in State headquarters is due to increase in part-time employment and represents increased employment of present employees.

Increases and decreases by project and object, 1965 over 1964

		P-10	P-20	P-30	P-40	P-50	Total
11	Personnel compensation	$109,800	$421,700	$4,892,477	$1,300	$670	$5,425,947
12	Personnel benefits	1,200	4,300	201,201		5	206,706
21	Travel and transportation of persons	−1,200		−534,000			−535,200
22	Transportation of things			−20,000			−20,000
23	Rent, communications, and utilities			248,322	−400	−275	247,647
24	Printing and reproduction	−13,000		15,000	−100	−100	1,800
25	Other services				−400	−100	−500
26	Supplies and materials				−100	−100	−200
31	Equipment	−10,800			−300	−100	−11,200
	Total	86,000	426,000	4,803,000			5,315,000

Mr. SHIPLEY. Project 30 covers all the local boards and their functions, advisers to the registrants, medical advisers, and so on. These people total 47,000. They are not compensated in any way.

Colonel ILIFF. That is right.

REQUEST FOR INCREASED EMPLOYMENT

Mr. SHIPLEY. I believe you are asking for an 1,020 increase in average employment for these local boards. Why do you request this many employees within such a short time?

General HERSHEY. One of the things we have been through in these last 6 months has been ordering for preinduction examination 400,000. We have been driven for several years to have these people work a great many hours for which they are not compensated. It has been true that the calls up until this year have been—well, a year ago there were some 70,000. This year we will probably hit 165,000. The result is that the situation in our local boards has been quite serious in the past 6 or 8 months. These individuals have had to work overtime. They do happen to be very closely tied in with unpaid people and you will not get unpaid people to work unless we furnish them clerical hire.

I believe we have said each year when we come up here that we are very much embarrassed by the amount we have had these people do for nothing. We are faced with these 600,000 new registrations next year. It is on the basis of that we are defending this 1,000 people.

Unfortunately we are faced now with things we didn't even imagine when we got this thing because this referral program——

Mr. THOMAS. General, if I may interrupt you. Your board members are certainly doing an outstanding job and they have been uncompensated. They have been doing this since the inception of the program. Your clerks are fine, patriotic, loyal people, too. Aren't they pretty well satisfied with their local employment by and large?

General HERSHEY. I would like to say that I think the morale among our clerks is very high.

Mr. THOMAS. I have been to several of your offices and I know of no finer any place.

Mr. BOLAND. Off the record.

(Discussion held off the record.)

Mr. THOMAS. As the matter stands, gentlemen, the general comes in and says he has to have about 1,600 new employees. He ends up with

about 1,000 new ones, but we want to know how many of these will be annualized next year or the year after next in the budget, and rather than having 1,000 you will have 1,700 or 1,800.

Can you help the general straighten this out? That is what it looks like.

The sheet clearly shows the new employment is in excess of 1,600.

Mr. SHIPLEY. 1,672.

Mr. THOMAS. Through annualization it comes down to 1,000. But the year after next he will come back with 1,600 to 1,700. Can anybody help the general straighten that out for the record?

General HERSHEY. Well, the general is in a rather difficult position.

Mr. THOMAS. We don't want to put you in that kind of position.

(Discussion held off the record.)

General HERSHEY. I was in San Diego and Los Angeles in the last week. When you see 2,000 cases piled up in the Los Angeles offices, people who migrated to California and want to make a transfer, it is a difficult situation.

Mr. JONAS. Is it possible that you have differing conditions around the country?

General HERSHEY. That is right.

Mr. SHIPLEY. How many employees do you have in your local boards who are compensated?

General HERSHEY. Depending on the size of the local boards. If there are 40,000 to 50,000 registered there may be 3.

Mr. SHIPLEY. I refer to the total.

Colonel ILIFF. 4,400 full time and 1,750 part time.

OVERTIME

Mr. SHIPLEY. On page 53 you state:

> In the study of the nine States, a report was made of the official work performed by local board clerks for which they were not compensated. It amounted to 1.1 percent of the amount of time for which compensation was paid.

How long would they have to work at 1.1 percent to put in an hour's overtime? Would they have to work a couple of weeks to put in an hour of overtime?

Colonel ILIFF. What we are speaking of is what happened last May. What we have today is something quite different because of the fact we had this low——

Mr. SHIPLEY. That may be true, but you are justifying that with this justification. You did not change the number of employees since the justification was submitted; did you?

Colonel ILIFF. No.

Mr. SHIPLEY. Can you give me that figure for which I asked? How long would it take an employee to work an hour's overtime at 1.1 percent?

General HERSHEY. About two and a half weeks. You figure a 40-hour week, two and a half weeks would be 100 hours, and that is about what it is.

Mr. SHIPLEY. That is the point I was trying to bring out. If an average employee puts in 1 hour every 2 weeks this figure is accurate, then.

General HERSHEY. That is right.

KANSAS STATE UNIVERSITY LIBRARY
MAY 26 196
MANHATTAN, KANSAS

Mr. SHIPLEY. Any questions on this portion, gentlemen?

Mr. JONAS. I was not quite clear about the nervous breakdowns you referred to off the record in the local boards. Is that widespread, in certain areas?

General HERSHEY. In the past 6 months—and mind you, this is not war, and it is not what we went through during World War II and in Korea, but fortunately in those days we had younger clerks than we have now. When you have to get 10, 15, or 20 individuals set up to go in for induction, and then 2 or 3 are married, and a couple others turn up in school, and on short notice you have to find 5 or 6 more to send; those are the things that makes some of these elderly girls nervous. Perhaps they should not be, but——

TURNOVER

Mr. JONAS. What is your turnover in the compensated personnel? What is the rate of turnover per year?

Colonel ILIFF. I do not have it.

General HERSHEY. It is not great. It might be surprisingly great, but I will go on record as saying it is not great.

Mr. JONAS. Governmentwide it is 14 or 15 percent. Is yours that high?

General HERSHEY. I don't think so.

Colonel ILIFF. Last time I checked, it was five.

General HERSHEY. For the last 4 years I have led every governmental agency on the buying of bonds. The only people available to buy bonds are local board clerks because my military personnel have it charged against them. We have 200 or 300 in the States that are civilians. Of the 4,000 most are local board clerks. We have 97.8 percent of those buying bonds, and for 4 years I have led the parade.

We don't have much turnover. If we did have we would not have these new ones buying bonds so quickly.

Mr. JONAS. How many clerks did you say, 6,000?

Colonel ILIFF. A total of 6,150, including part time.

General HERSHEY. About 1,700 are part time, but some of the part time are just as permanent.

Mr. JONAS. Can you tell us how many of those have been with the organization since World War II ended?

General HERSHEY. We can get together and send it over.

Mr. THOMAS. Gentlemen, let me refer you to page 54. Compare page 54 with the green sheets on page 23. Page 23 is the green sheet for project 30. Here is an overall sheet on page 54 dealing with project 30.

On page 54 you say you have local clerks numbering 6,227 against 5,151 for 1964. That is an increase of what?

General HERSHEY. One thousand plus.

Colonel ILIFF. That is man-years.

Mr. THOMAS. You want to put it on that basis, 1,700.

Go back to the green sheets on project 30 dealing with the clerks of the local boards. You have 4,232 against 6,015, which is a difference of about 1,800.

Then you try to lapse out 764. I don't know what it means. Do you know what this means? What is the turnover in the local boards?

Is it old age, death, nervous breakdowns? What is the turnover in the local boards? That is over three-quarters of your employment, close to 90 percent. What is the rate of turnover?

Colonel ILIFF. I don't know what the current rate is, sir. At one time I checked it and it was around 5 percent.

Mr. THOMAS. Would say it is 5 percent now?

Colonel ILIFF. I would think it would not be much more than that.

Mr. THOMAS. What is the average rate of turnover in the Government?

Colonel ILIFF. 14 percent I am told.

Mr. THOMAS. I understand it is 14 percent. Why is yours so low and the rest of the Government so high? Do you have a happy situation, overwork, nervousness?

General HERSHEY. In the first place, Mr. Chairman, I don't see people quitting anywhere because of overwork.

Mr. THOMAS. Maybe you can explain it to us. Why do so few people resign? It is three times that high throughout the Government.

General HERSHEY. It would not be very dignified of me to think we have an organization that is different from those governmental organizations.

Mr. THOMAS. What do you mean dignified of you?

General HERSHEY. Because somebody might think that as long as I have been in it all I would claim credit for the fact we have an effective organization. I think the lack of turnover proves it.

Mr. THOMAS. Don't be too timid about it.

General HERSHEY. I don't think overwork drives people away. I am glad not to have people who quit because of too much work. I don't want them.

Mr. THOMAS. What is some reason with some meat on it that the rate in Government turnover is about three times as high as your rate?

General HERSHEY. Most of those women are older. Most of them are widows or wives. Also, they can work in the area where they live.

Mr. THOMAS. That is no different from 95 percent of the Federal employees. They all work in the area in which they live. You will have to come up with a better reason that.

Mr. BOLAND. They are alone. They have their own offices.

General HERSHEY. They are executives and not clerks.

Mr. BOLAND. It is pretty nice.

Mr. THOMAS. Did Mr. Boland put his finger on it? It is satisfactory employment, they like it, and if they didn't they would quit.

Mr. SHIPLEY. The clerk in my hometown is retiring because of bad eyesight. I have had 20 people in the last month and a half contact me on how to get this job. I know you have no trouble recruiting personnel for this type of job, and evidently in some areas it must be a very attractive job or you would not have this many inquiries from a town the size of mine.

General HERSHEY. If it is a small place, and it depends on the employment level, sure. I cannot do too much in my own home community. We have the same girl who started in 1940. She has two local boards now and drives 30 miles a day, but it is all right. In my community any amount of money is welcome,

Mr. SHIPLEY. Do you pay the same amount of money for the same job?

General HERSHEY. Some other agencies outbid us. On the other hand we have had people who didn't leave when they were offered more money, and others went and then came back.

Mr. Boland put his finger on it. There are a lot of people who if they can be the boss are a great deal more satisfied than if they are merely somebody who is a link in a chain.

Mr. SHIPLEY. Off the record.

(Discussion held off the record.)

JUSTIFICATION MATERIAL—PROJECT 30

Mr. SHIPLEY. Enter in the record pages 54 through 79.

(The pages referred to follow:)

COMPARATIVE SUMMARY STATEMENT BY FUNCTION

Project 30, local board clerks

	1963 actual		1964 authorized		1965 estimate	
	Man-years	Cost	Man-years	Cost	Man-years	Cost
Registering	875	$3,533,580	863	$3,712,386	1,193	$5,166,988
Classification	1,915	7,735,705	2,009	8,643,757	2,620	11,349,171
Appeals	38	152,379	40	170,363	52	223,822
Physical examination (local board)	17	67,630	38	165,260	26	110,508
Physical examination (Armed Forces examining station)	125	506,881	288	1,238,051	191	827,935
Inductions	62	250,339	119	512,934	81	351,163
Civilian work assignments	3	11,275	5	23,107	4	15,818
Enlistment in Ready Reserve	2	7,534	0	648		
Delinquents	19	76,787	20	85,532	26	112,358
Initial processing of standby reservists	232	937,742	226	974,165	226	979,080
Categorizing standby reservists	414	1,670,567	365	1,568,800	331	1,433,256
Removal from Standby Reserve	90	362,132	97	419,240	102	441,816
Answering inquiries	504	2,035,164	529	2,275,469	690	2,986,973
Administrative time	1,085	4,380,360	1,035	4,452,475	1,165	5,143,606
Subtotal	5,381	21,728,075	5,634	24,242,187	6,707	29,142,494
Less uncompensated man-years	−35	−147,261	−483	−2,075,937	−480	−2,083,767
Total	5,346	21,580,814	5,151	22,166,250	6,227	27,058,727

	1963	1964	1965
Registering:			
Work units	1,506,857	1,525,847	2,109,836
Man-years	875	863	1,193
Cost	$3,533,580	$3,712,386	$5,166,988
Unit cost	$2.345	$2.433	$2.449

All male citizens of the United States (and alien males in the United States) who are over 18 years of age are required by law to register with the Selective Service System for possible military service. The registration is conducted by local board clerks who normally interview each registrant as part of the preparation of several forms, assign selective service numbers and prepare necessary file documents. The function also includes issuance of duplicate replacement registration certificates and the work involved in the cancellation of a registration when necessary.

Estimates of work units to be processed are based on census estimates of the number of men who will turn 18. These estimates are adjusted on the basis of actual numbers registered. (See p. 3 of this justification.)

	1963	1964	1965
Classification:			
Work units	6,803,610	7,325,218	9,561,222
Man-years	1,915	2,009	2,620
Cost	$7,735,705	$8,643,757	$11,349,171
Unit cost	$1.137	$1.137	$1.187

Classification is the act of declaring a registrant either available for military service or not available for service for any of several prescribed reasons, including dependency and employment in vital industry. The procedure is necessary to comply with a provision of the law which requires a selection system which is fair and just and which is consistent with the maintenance of an effective national economy. Accordingly, all men who register must be placed in one of the several classification categories as soon as practicable. In addition, registrants must be reclassified as changes occur in their family, employment, or health status. Classification determinations are made by uncompensated members of the local board but substantial clerical work is also involved.

This item covers the work of the local board clerk in preparing and mailing the classification questionnaire and associated documents, reviewing them when they are returned, securing such additional information as may be required, attending board meetings, and preparing various postmeeting forms.

There is some timelag between registration and classification and all who register in a particular year may not be classified during that year. However, these estimates are made by correlation of the new registration figure and the induction requirements.

	1963	1964	1965
Appeals:			
Work units	7,410	7,984	10,412
Man-years	38	40	52
Cost	$152,379	$170,363	$223,822
Unit cost	$20.564	$21.338	$21.476

A registrant, his dependent, or any person who has filed a request for his deferment may appeal any classification actions except those placing the registrant in classes I–C, I–W, IV–F, or V–A. These appeals go first to appeal boards in the States but may, under certain circumstances, ultimately be carried to the National Selective Service Appeal Board which is located in Washington, D.C.

This item covers the work of the local board clerks and the appeal board clerks in processing these appeals. It includes the making of necessary notations in various records, preparation of necessary forms, and notification to interested persons that an appeal has been taken and informing them of the result of the appeal.

The estimated volume of appeals for 1964 and 1965 is calculated as a portion of the number of classifications.

	1963	1964	1965
Physical examination (local board):			
Work units	38,624	90,952	60,420
Man-years	17	38	26
Cost	$67,630	$165,260	$110,508
Unit cost	$1.751	$1.817	$1.829

While most physical examinations are conducted by the medical staff at Armed Forces examining stations, medical interviews are conducted at the local boards to screen out registrants who may have obviously disqualifying physical or mental conditions. This interview is usually conducted by a medical adviser to the local board. Its purpose is to save the cost of transportation to an examining station of the men concerned.

The local board clerk is involved in these examinations in preparing notices for registrants to report for medical interview, completing pertinent forms, making necessary notations on records, etc.

The work measurement study shows that the percentage of registrants who are handled in this manner is 15.42 percent of the total who undergo Armed Forces physical examinations. On the basis of 391,829 forwarded for Armed Forces physical examinations in 1965, it is therefore anticipated that there will be 60,420 local board physical examinations.

	1963	1964	1965
Physical examinations (examining stations):			
Work units	250,559	589,829	391,829
Man-years	125	288	191
Cost	$506,881	$1,238,051	$827,035
Unit cost	$2.023	$2.099	$2.113

Most registrants are examined at Armed Forces installations where there is available equipment for X-ray, laboratory tests, etc.

In preparing groups of registrants to be sent to these installations, it is necessary to issue orders to the individual registrants, prepare various documents for each (and file them on return), instruct group leaders, etc.

Two factors are involved in estimating work units for this item; the number of men called for induction and the condition of the manpower pool.

The calculations upon which this is based are covered under the justification for selectee travel in this project. The 1964 estimate is based on 147,000 inductions and the 1965 estimate on 100,000 inductions.

	1963	1964	1965
Inductions:			
Work units	103,703	204,764	139,295
Man-years	62	119	81
Cost	$250,339	$512,934	$351,163
Unit cost	$2.414	$2.505	$2.521

Registrants in sufficient number are sent to induction stations for induction into the Armed Forces in numbers requested by each service. Registrants are under the control of Selective Service until inducted but from that point on they are the responsibility of the appropriate service. In recent years the Navy, Air Force, and Marine Corps have filled all personnel needs through enlistment and only the Army has been using inductees. It is anticipated that this situation will continue through 1964 and 1965.

Workload for this item depends entirely on manpower requirements of the Armed Forces and the rejection rate of induction. The work unit is the number of men forwarded for induction. Calculations upon which this is based are covered under the justification for selectee travel in this project.

	1963	1964	1965
Civilian work assignments:			
Work units	964	1,904	1,295
Man-years	3	5	4
Cost	$11,275	$23,107	$15,818
Unit cost	$11.696	$12.136	$12.215

Registrants who are conscientious objectors to military service are allowed under the law to do certain types of civilian work in lieu of such service. This

work must contribute to the maintenance of the national health, safety, or interest and must be in the employ of the United States, a State government or a subdivision thereof, or of a nonprofit organization engaged in an activity benefiting the general public. The registrant must do such work for a period equal to the time he would spend in military service had he been inducted. The local board must approve the employment of each registrant performing civilian work in lieu of military service.

This item covers the work of the local board clerk in locating suitable work for the conscientious objector, ordering him to report for such work, referring to the State director of selective service cases in which the registrant and the local board are unable to agree on suitable work, making arrangements for travel of the registrants, making necessary notations on records, etc.

The number of civilian work assignments varies with the number forwarded for induction.

	1963	1964	1965
Enlistment in the Ready Reserve:			
Work units	1,025	85	
Man-years	2	0	
Cost	$7,534	$648	
Unit cost	$7.350	$7.626	

Registrants who possess certain critical skills and who were engaged in civilian occupations in a critical defense-supporting industry or in research affecting national defense were permitted by law to enlist directly in the Ready Reserves of the Armed Forces. Following enlistment they served 6 months of active duty for training and were then required for the balance of their period of military liability to engage in all of the activities of the Ready Reserve.

This item reflects the work of processing registrants' requests for enlistment in the Ready Reserve, notifying registrants and employers of disposition of these requests, and notifying the appropriate armed service when a registrant ceases to be employed in a critical industry.

The provision of the law establishing this critical skills program lapsed on August 1, 1963. For fiscal year 1964 1 month's operation is shown. Nothing is requested for 1965.

	1963	1964	1965
Delinquents:			
Work units	13,835	14,870	19,409
Man-years	19	20	26
Cost	$76,787	$85,532	$112,358
Unit cost	$5.543	$5.752	$5.789

Any registrant who fails to perform any duty required of him by the Universal Military Training and Service Act may be declared a delinquent. In some cases delinquents may be ordered for immediate induction. Failure to respond to an order to report for induction can result in a delinquent being reported to the U.S. attorney for prosecution under applicable statutes. Local boards make all reasonable efforts to secure compliance of delinquents before ordering them for induction or reporting them to the U.S. attorney.

This item includes the time local board clerks spend in attempting to locate and secure compliance of delinquents, correspondence with the U.S. attorney, other local boards and registrants and making necessary notations on appropriate records.

The number of delinquents represents 0.203 percent of classification actions.

	1963	1964	1965
Initial processing of Standby reservists:			
Work units	983,989	985,000	984,000
Man-years	232	226	226
Cost	$937,742	$974,165	$979,080
Unit cost	$0.953	$0.989	$0.995

The Armed Forces Reserve Act of 1952, as amended, provides that no member of the Standby Reserve can be recalled to active duty until he has been found by the Director of Selective Service to be available for such duty. In order to meet the responsibility thus placed upon it the Selective Service System must maintain records of the membership of the Standby Reserve and determine for each member whether he is available for active duty or not available by reason either of dependency or employment in an essential industry.

This item describes the function of establishing the original records on standby reservists. It includes the receipt from State headquarters of orders transferring men to the Standby Reserve, preparing locator cards and folders, mailing questionnaires, locating reservists whose proper address has not been supplied and, where necessary, transferring them to other local boards in whose jurisdiction they live. In these respects the function is much like that of registering.

Work receipts for this item depend upon the rate at which the Armed Forces screen men to the Standby Reserve. There were 983,989 processed in 1963. There still remains a backlog in State headquarters, part of which should be cleared up in 1964. In 1965 it is anticipated there will be 984,000 processed, which is the approximate number processed in 1963.

	1963	1964	1965
Categorizing of standby reservists:			
Work units	1,633,008	1,480,000	1,342,000
Man-years	414	365	331
Cost	$1,670,567	$1,568,800	$1,433,256
Unit cost	$1.023	$1.061	$1.068

A process similar to classification is necessary before Selective Service is able to declare a reservist available or not available for recall to active duty. This process is referred to as categorizing to avoid confusion with classification and is somewhat simpler than the latter in that only four categories are used. These are I–R (available for order to active duty); II–R (not available because of civilian occupation); III–R (not available because of dependency) and IV–R (not found available and not found qualified for II–R or III–R).

Responsibilities of the local board clerk in this process include review of the questionnaire when it is returned, attendance at board meetings, preparation of notices of availability to the reservists and to the Armed Forces, and maintenance of pertinent forms and records.

An annual contact to secure current information on availability is made with all standby reservists. The statutory requirement for an annual contact by the services is now being satisfied by Selective Service furnishing the several components with the result of this annual contact. Reconsideration of status is made as a result of the information received from this contact. It is included in categorization.

	1963	1964	1965
Removal from Standby Reserve:			
Work units	842,168	940,000	984,000
Man-years	90	97	102
Cost	$362,132	$419,240	$441,816
Unit cost	$0.430	$0.446	$0.449

Reservists may be removed from the Standby Reserve upon completion of their period of military liability and are removed by death, or upon development of a disqualifying physical or mental defect.

In all of these cases it is necessary to post information to records and notify the Armed Forces when required and the registrant (except in case of death). The number is related to intake 2 years prior.

	1963	1964	1965
Answering inquiries:			
Work units	6,021,194	6,482,818	8,461,687
Man-years	504	529	690
Cost	$2,035,164	$2,275,469	$2,986,973
Unit cost	$0.338	$0.351	$0.353

Inquiries come to local boards from registrants, employers, the general public, other offices of the Selective Service System and other agencies of Government. These inquiries cover all phases of selective service operation and are in both written and oral form.

This item accounts for the time of local board clerks in answering all inquiries except those which are part of another workload item.

Inquiries are related to classification actions and in number represent 88.5 percent of such actions.

	1963	1964	1965
Administrative time:			
Man-years	1,085	1,035	1,165
Cost	$4,380,360	$4,452,475	$5,143,606

Time spent at meetings of local board clerks, with representatives of State or National headquarters in training other clerks, preparing reports, general reading of informational media, opening and sorting mail, etc. It is not possible to reduce these functions to a unit measure since the costs cannot be related to processing count nor work units. It is, however, shown on the comparative summary statement by function.

	1963	1964	1965
Maintaining files:			
Man-years	126	135	163
Cost	$509,934	$581,717	$705,445

This item accounts for the time of local board clerks spent in reviewing, purging, and rearranging files of their offices. This cost has been allocated in the proportion of other items where unit costs can be secured and is not an additional cost factor in this request.

NONPRODUCTIVE TIME

In addition to the time spent on the various functions performed in local board offices, there are two classes of nonproductive time. These are:

(1) Paid leave: This includes sick leave, annual leave, and holidays.

(2) Staff time: Selective Service is required by law to maintain at least one local board office in each county in the United States. Many of these offices generate very little business and these are operated on a part-time basis, some being open only 1 or 2 days a week. There are, nonetheless, occasions when a clerk is present in an office but has no work to do. Time so represented is reported in this item.

Time spent on the above item is spread across the productive functions of local board clerks on a percentage basis. It is reported below for information purposes only and is not intended as an additional cost factor in this budget request:

	1963	1964	1965
Paid leave:			
Man-years	861	747	896
Cost	$3,477,053	$3,210,988	$3,893,949
Staff time:			
Man-years	108	104	112
Cost	$434,701	$448,226	$485,757

	1963 actual	1964 estimate	1965 estimate
12 Personnel benefits:			
Civil service retirement contributions	$1,267,448	$1,364,000	$1,560,450
Group life insurance contributions	70,203	74,500	76,251
Federal Insurance Contribution Act taxes	64,658	73,000	75,000
Health benefit contributions	172,537	180,000	182,000
Employee suggestion awards	15,038	1,000	----------
Total	1,589,884	1,692,500	1,893,701

These items, except employee suggestion awards and health benefit contributions, vary with the payroll amounts.

	1963 actual	1964 estimate	1965 estimate
21 Travel and transportation of persons:			
Administrative travel	$504,805	$485,000	$485,000
Travel of selectees	1,206,273	2,479,000	1,945,000
Rental of passenger motor vehicles	23,151	33,000	33,000
Total	1,734,229	2,997,000	2,463,000

For administrative travel the request for 1965 has been increased to cover the expanding travel requirements. It covers the travel of local and appeal board members (which is exempt from the limitation but is increasing with greater activity), the travel of local board auditors and the travel of clerks when serving more than one board or when attending group meetings. They also occasionally are required to answer a subpena in cases of court trials involving delinquents being prosecuted for violation of the selective service law.

The travel of selectees is directly affected by the number induced into the Armed Forces. Calls to be filled by induction are placed on Selective Service by the Department of Defense. Selective Service does not participate in the determination of the size of the call. In 1963 there were 75,333 inducted. For 1964 at the time of the budget request, we received notice from the Bureau of the Budget that we were to use an estimate of 129,000. Our selectee travel allowance was based on that figure. The most recent figure furnished us is for 147,000 inductions in fiscal year 1964. We have shown the cost for this larger figure on the following table. Also included is the loss to the pool reflected in the increased percentage rate occasioned by the change in acceptable standards of the category IV inductees. This indicates a shortage of $437,000 in the selectee travel account as presented to Congress for fiscal year 1964. Our estimate for 1965 is based on current rejection rates and 100,000 inductions.

Rental of passenger motor vehicles is from GSA motor pools.

Selectee travel, 1964

	Number	Cost per selectee	Amount
Number to be forwarded for Armed Forces physical examination	589,829	[1] $4.26	$2,512,672
Mental and physical rejections at Armed Forces PIE (52.60 percent)	310,252		
Number put in I–A examined and acceptable	279,577		
Losses by enlistment and reclassification (26.76 percent)	74,811		
Number to be forwarded for induction	204,766	1.97	403,389
Rejected at induction station (28.21 percent)	57,766		
Number to be inducted	147,000		
Total			2,916,061

[1] 2 1-way trips, at $1.97 each, plus 32 cents for meals and lodging.

Selectee travel, 1965

	Number	Cost per selectee	Amount
Number to be forwarded for Armed Forces physical examination	391,829	[1] $4.26	$1,669,192
Mental and physical rejections at Armed Forces PIE (52.60 percent)	206,102		
Number put in I–A examined and acceptable	185,727		
Losses by enlistment and reclassification (25 percent)	46,432		
Number to be forwarded for induction	139,295	1.97	274,411
Rejected at induction station (28.21 percent)	39,295		
Number to be inducted	100,000		
Total			1,943,603

[1] 2 one-way trips at $1.97 each plus 32 cents for meals and lodging.

	1963 actual	1964 estimate	1965 estimate
22 Transportation of things:			
Freight, express and drayage	$65,186	$70,000	$50,000
Rental of trucks	1,468	2,000	2,000
Parcel post (penalty indicia)	45,000	45,000	45,000
Total	111,654	117,000	97,000

This object covers the charges for distribution of supplies, materials, and equipment to local boards and appeal boards. The small increase in 1964 is due to delayed delivery of local board equipment purchased in late 1963.

Truck rental from GSA is used when it is determined to be more economical than other means of transportation.

The amount appropriated for parcel post (penalty indicia) is paid to the Post Office Department.

	1963 actual	1964 estimate	1965 estimate
23 Rent, communications and utilities:			
Communication services	$488,812	$525,000	$525,000
Rents and utilities	13,492	10,000	258,322
Penalty mail	568,125	631,250	631,250
Total	1,070,429	1,166,250	1,414,572

Telephone costs are 95 percent of the communications services expenses. The increases reflect the rising costs of telephones and the 100-percent increase in GSA service charges on the net.

Due to changes in the handling of the budget for rents, there is shown a substantial increase in 1965 and 1964. The principal item of this expense is for reimbursement to GSA by transfer—for 1964 (not shown here) the amount is $210,000 and for 1965 $248,000. The remaining is to pay for local board expense in Guam, Puerto Rico, and the Virgin Islands, as well as charges for garage rental wherever used and charges for utilities in rent-free space.

Penalty mail is to reimburse the Post Office Department for use of penalty indicia.

	1963 actual	1964 estimate	1965 estimate
24 Printing and reproduction	$161,517	$160,000	$175,000

The object class provides for contractual printing and repreduction by the Government Printing Office and by commercial printers.

The principal requirements are for forms for local board use; the most costly of which are the questionnaire (SSS form No. 100), which is an eight-page document and is a part of the record of every registrant, and the cover sheet (SSS form No. 101) which is heavy file folder stock and on which is placed pertinent data covering the status of the registrant. It is used as a file folder and is part of the permanent record of each registrant. Between 1½ to 2 million are required annually. Registration cards (SSS form No. 1) and registration certificates (SSS form No. 2) will be required in increasing numbers due to the large increase in the number of new registrations.

Stocks of forms required for classification, physical examination, and induction are in good supply because of the induction rate dropoff in 1963.

Printing of the regulations is also charged to this account.

	1963 actual	1964 estimate	1965 estimate
25 Other services	$77,783	$75,000	$75,00

This item includes the cost of repairing and painting local board offices where GSA does not furnish the service (over 500 local boards occupy rent free quarters) and repairs of office equipment, principally typewriters. It also includes reimbursement to the Department of Labor for $7,000 in 1964 and $12,000 in 1965 for workmen's compensation payments.

	1963 actual	1964 estimate	1965 estimate
26 Supplies and materials	$144,788	$175,000	$175,00

This object class provides for all commodities which are ordinarily consumed or expended within a comparatively short period of time. The supplies consist of paper, envelopes, and other miscellaneous office material required to carry out day-to-day operations. It also includes forms, other than selective service forms which are purchased.

Cupboard stocks are maintained in over 4,000 offices and local supply stocks for issue to local boards at 56 State headquarters. It fluctuates from year to year but runs in the neighborhood of $200,000.

	1963 actual	1964 estimate	1965 estimate
31 Equipment	$497,975	$100,000	$100,000

Under the simplified obligation report approved by the Bureau of the Budget several years ago, no records of cost are maintained on the principal items of

equipment. The estimates are based on centrally adjusted estimates of requirements submitted by the several State headquarters.

The principal items are: Five-drawer file cabinets ($8,000), typewriters for replacement ($50,000), typewriter desks ($4,000), office tables and chairs ($6,000).

These items are for replacement, to provide for expanding file needs or to furnish new local board offices where boards have been so large that they are unwieldy. The new registrants account for most of the file cabinets. The use of uncompensated board members requires that the workload on them must be maintained at a reasonable level. As boards divide, it is an opportunity to get a board office closer to its registrants, thus requiring a new board set up.

In addition to the office equipment, the request for five station wagons and eight passenger cars is included.

COST AND WORKLOAD BY ACTIVITY

Mr. SHIPLEY. This all has to do with the local board clerks.

Page 55 shows the increase in cost, $1,454,000 over 1964, gentlemen.

Under classification there is quite a jump, $1,700,000 over 1964. You touched on this. Would you like to go into it further?

General HERSHEY. Our new registrations will be approximately 600,000 more. Classification will be more than that because heretofore we have not classified down. With the new things we are facing we will have to classify at 18 to make them available for this examination business.

Mr. SHIPLEY. Page 57 shows $53,000 more more for appeals.

General HERSHEY. The more classifications you get the more appeals you have.

Mr. SHIPLEY. Page 58, physcial examinations, there is a reduction from 1964.

General HERSHEY. When we set up this budget we were going to induct less people this year than we did last year. We still are, but in addition to that now we will have to examine the 18 year olds and this budget was not set up to take care of that. There will be 700,000 examinations that this budget does not cover.

Mr. SHIPLEY. What does this amount to in dollars?

General HERSHEY. About $4 each.

Colonel ILIFF. That is transportation.

It is roughly $1,275,000 for that, and $426,000 for the cost of transportation.

Mr. SHIPLEY. Examining stations show a reduction.

General HERSHEY. Because we will induct less people.

Mr. SHIPLEY. Inductions show a reduction of $161,000. Again this goes back to the same reason?

General HERSHEY. That is right, because we will take in 165,000 this year and next year it will be——

Colonel ILIFF. 100,000 next year is what this budget is based on.

General HERSHEY. Last year's budget is based on 130,000 and we are taking in 165,000.

Colonel ILIFF. I used 147,000, which was the then current figure, to make the comparison.

Mr. SHIPLEY. You have a reduction of $7,300 from last year, bringing the total to $15,800 for civilian work assignments. What is this item for?

Colonel ILIFF. This is conscientious objectors who do work in lieu of military service. This is work of national importance.

Mr. SHIPLEY. Why the reduction?

Colonel ILIFF. That is based on the number of inductions. When you reach a man's number he lines up here.

Mr. SHIPLEY. Delinquents show an increase over 1964. This is for the delinquent inductee?

Colonel ILIFF. This is a man who becomes delinquent and it is reported to the U.S. attorney for prosecution. This varies with the number of classification actions. It is not a large item but it varies with the number of classification actions.

Mr. SHIPLEY. Is this percentage of 203 high or low?

Colonel ILIFF. That is about an average.

Mr. SHIPLEY. Page 64, initial processing of standby reservists, a total of 983,989 processed in 1963.

Here is an item categorizing standby reservists.

Removal from Standby Reserve is up some $25,000 over 1964. Reservists may be removed from the Standby Reserve upon completion of their period of military liability and are removed by death, or upon development of a disqualifying physical or mental defect.

What is the reason for this increase?

Colonel ILIFF. The number is related to those who went in 2 years prior to this time.

Mr. SHIPLEY. Page 67 shows a request of $711,000 over 1964 for answering inquiries. Where do these inquiries come from?

Colonel ILIFF. Inquiries are related in numbers to the classification actions of 88.5 percent of such actions. This is something we determine from our studies. Inquiries come from every place.

Mr. SHIPLEY. Where do the bulk of them come from?

Colonel ILIFF. Registrants and their families comprise the bulk.

Mr. SHIPLEY. That is quite an increase. This goes along with more classifications?

Colonel ILIFF. That is right.

General HERSHEY. And it has nothing to do with the 17- or 18-year-olds you are going to tackle.

Mr. THOMAS. Would it help the record if at some point we have a complete breakdown and a table showing the work units—call it whatever you want to, General—setting out the work units, the number to be classified and inducted, and then the other activities on the same sheet? The table will show that 40 to 50 percent is induction, and you equal that much work in the other field of activities with the Reserves and keeping up with your people.

Why not put it on one sheet and show it all together? Show the work unit on one sheet.

Colonel ILIFF. We have it in man-years and cost. It is shown on page 54.

Mr. THOMAS. Let us check page 54. This is it, right here. This is already in the record.

Colonel ILIFF. This represents man-years.

Mr. THOMAS. This gets it, though. What is the biggest activity from this table?

Colonel ILIFF. Classifications.

Mr. THOMAS. It takes what part of your man-years?

General HERSHEY. About a third.

Mr. THOMAS. And your other activities show two-thirds and your registration and classification is one-third of your workload?

Colonel ILIFF. Yes, sir.

Mr. THOMAS. This table sets it out very clearly. Here it is—registration and classification people. They say "Do away with the draft boards. You are not taking too many people," and so on.

By doing away with it you would be doing away with only one-third of the entire workload. Is that correct?

Colonel ILIFF. That is right.

Mr. THOMAS. Go ahead.

Mr. SHIPLEY. Page 68 shows $691,000 more than in 1964 for administrative time. You say time is spent at meetings of local board clerks with representatives of State or National headquarters in training other clerks, preparing reports, general reading of informational media, opening and sorting mail, and it is not possible to reduce these functions to a unit measure since the costs cannot be related to processing count or work units. It is, however, shown on a comparative summary statement by function.

Colonel ILIFF. That is page 54 again.

Mr. SHIPLEY. Would you go into this a little, General? Why this increase and why is it so great?

Colonel ILIFF. This increases greatly because it in turn is related to the other things you do.

MAINTAINING FILES

Mr. SHIPLEY. Maintenance of files shows a large increase. Is this also justified? It is just more work to do?

Colonel ILIFF. Yes, sir.

General HERSHEY. You have to open 600,000 more files, Mr. Shipley.

Colonel ILIFF. More than we opened in previous years.

Mr. THOMAS. How much of that money is being paid for rent to take care of the files? How current are your files? What do you do with the old files? How much rent are you paying for storage space of the files throughout the country? How much business are you doing with the Archives?

We have been to many of your offices and I find at least half of your records should be in the Archives, anyway.

General HERSHEY. Congress gave us some responsibilities. Of course, we destroyed all the World War II business. We still have the files for Korea and subsequently.

Mr. THOMAS. How much money do you spend a year for storage of your files, active or inactive?

Colonel ILIFF. Dead files or the files in the offices themselves?

Mr. THOMAS. Yes. Can you figure that out? How often do you let General Services come in and help you out in eliminating some of your files or putting them in storage?

General HERSHEY. We have been destroying them right along.

Mr. THOMAS. We are not talking about destroying. There is a difference between destroying them and warehousing them.

General HERSHEY. Yes; but if you happen to get anybody who is one of our people for 18 years who have remained live after he has been deferred you cannot transfer his file somewhere else. As soon as

you do, then if anything comes up about this individual—you see, Congress said anybody deferred had their liability extended until they are 35. That gives us a boy active from 18 to 35.

Mr. THOMAS. If you destroy his record someone is liable to come up for his record after 18 years. About three-fourths of them should be in the General Services warehouse rather than destroyed.

That gets back to the question of the rental in the 4,100 to 4,200 local boards. Is that where most of the files are kept?

Colonel ILIFF. The bulk of the files are those of the individual registrant; yes, sir.

RENTAL SPACE FOR FILES

Mr. THOMAS. What part of the files are in Government space or uncompensated space?

Colonel ILIFF. About 25 percent in uncompensated space at the present time.

Mr. THOMAS. Owned by Government?

Colonel ILIFF. No; uncompensated space, space we get for nothing.

Mr. THOMAS. You get it for nothing if it is Government-owned, too?

General HERSHEY. Most of our space is either unpaid for or paid for by General Services. We pay for it at Hawaii or other places where you do not have General Services.

Mr. THOMAS. General Services picks up about 60 percent of the bill? General Services is paying storage on your files?

Colonel ILIFF. That is right.

Mr. THOMAS. Did you ever figure out how many square feet of filing space you have in all the 4,100 to 4,200 local boards?

Colonel ILIFF. I am sure we have it but not here, sir. We have a record of what our files are.

Mr. THOMAS. How often do you reduce the space by turning files over to the General Services Administration? This is not a new subject. We have gone into this with you before.

General HERSHEY. When we have done it it has been on a bloc basis as it was when we took our World War II records. We destroyed them. The Congress made the Director of Selective Service responsible——

Mr. THOMAS. Congress didn't say you had to keep the records 18 years if you had to pay $1.50 a square foot for them.

General HERSHEY. I am sure they didn't. What I am trying to get at is this: The taking over of selective service files is under a different law from taking over the records of some other agency because Congress passed a law specifically in 1947 for the preservation of selective service records. They appointed a Director. When they passed the law in 1948 they bestowed on the Director of Selective Service the responsibility of selective service records, so our turning anything over to the GSA is not like other agencies.

Mr. THOMAS. We disagree with you.

General HERSHEY. We will not quarrel with the theory.

Mr. THOMAS. You are not destroying them but turning them over to reduce the rent. They are still available to you whenever you want them.

Colonel ILIFF. We could put them in cheaper rent spaces. We have done some of that.

However, I think we should be clear that we do not get rid of records. I am supposed to destroy them when I am through with them.

There are some things that will be——

Mr. THOMAS. Where are the three records depots now?

General HERSHEY. Three?

Mr. THOMAS. You have three, have you not?

General HERSHEY. No.

Mr. THOMAS. How many do you have?

General HERSHEY. Records are in the States.

Mr. THOMAS. All in the State headquarters?

General HERSHEY. Some have gotten cheaper space.

Mr. THOMAS. How often do you do a job of decreasing the number from the local boards to the State boards?

General HERSHEY. In the smaller areas you do not. A local board with 1,200 is a lot different from one with 40,000. There are a lot of reasons why in Indianapolis or in New York City, Dallas, or Houston that you would——

Mr. THOMAS. Does GSA pay for your record centers in State headquarters or do you?

General HERSHEY. They do. With few exceptions they pay all our rental except what we get for nothing. We are still able to get some of the States and some of the counties to give us some space.

RENT BILL PAID BY GSA

Mr. THOMAS. Do you have direct information on what the rent bill is that General Services picks up for you?

Colonel ILIFF. We have it in the office, Sir.

Mr. THOMAS. Insert it in the record at this point, please.

(The information supplied follows:)

The General Services Administration reports the amount of rent which they picked up for us was at an annual rate of $3,321,535 as of January 31, 1964.

SPACE FURNISHED BY LOCAL COMMUNITIES

Mr. THOMAS. Also give us the best estimate of the dollar value of the rent that the local communities furnish to the Selective Service System free of charge.

(The information supplied follows:)

Local communties—largely State, county and municipal governments—furnish rent-free space at an estimated annual value of $625,000.

Mr. THOMAS. You do not have the amount of square footage?

General HERSHEY. We can furnish that, also.

Mr. THOMAS. Do that, too, please.

(The information supplied follows:)

Selective Service still has 533 local boards in non-Federal rent-free space, or 13 percent of the boards. Based on experience in the loss and replacement of this type of space, it will average 450 square feet per office (total 250,000 square feet) at $2.50 per annum per foot—a value of $625,000.

In addition, 17 percent or 700 local boards are in federally owned office space. It is estimated that 500 of these are in Federal buildings managed by GSA and 200 (5 percent) in Federal buildings under military, Post Office or other Federal agency (not GSA) management and control.

OTHER EXPENSES—PROJECT 30

Mr. SHIPLEY. Page 69 shows the nonproductive time. Paid leave, annual leave, holidays, and so on, and the fact you are to maintain at least one local board office in each county of the United States.

Page 70 shows an increase in each item except employee suggestion awards. Health benefit contributions vary with the payroll amounts.

Next item, travel and transportation of persons, is on page 71.

You have administrative travel which stays the same as 1964, $485,000.

You request an increase of $534,000 for travel of selectees.

Colonel ILIFF. It is a decrease, sir.

Mr. SHIPLEY. That is right. This goes back to the amount of work.

General HERSHEY. Yes, and we will be red faced with supplementals.

Mr. SHIPLEY. You cover that again on page 72. Also included is the loss to the pool reflected in the increased percentage rate occasioned by the change in acceptable standards of the category 4 inductees. This indicates a shortage of $437,000 in the selectee travel account as presented to Congress for fiscal year 1964.

You have a table on page 73 and one on page 74 going into the selectee travel.

You had $2,916,000 total for 1964 for this purpose.

Colonel ILLIFF. That is estimated cost based on 147,000 inductions which was not the budget figure. The budget figure was less.

Mr. SHIPLEY. What was that?

Colonel ILIFF. $2,479,000 is what we had money for. This indicates we will be short again.

Mr. SHIPLEY. And selectee travel for 1965, $1,943,000.

Colonel ILIFF. That is right.

Mr. SHIPLEY. Transportation of things on page 75 shows a reduction of $20,000. This object covers the charges for distribution of supplies, materials, and equipment to local boards and appeal boards. The small increase in 1964 is due to delayed delivery of local board equipment purchased in late 1963.

Page 76, rent, communications, and utilities, shows a reduction this year.

Questions on this item, gentlemen?

Printing and reproduction, an increase of $15,000 over 1964. What will this be used for?

Colonel ILIFF. More registration cards because of increased registrations, so many more cover sheets, and so on.

Mr. SHIPLEY. Under "other services" you have $75,000 this year, the same as 1964. This is for repairing and painting local board offices where GSA does not furnish the service.

Is space made available in some of the smaller boards, various courthouses?

Colonel ILIFF. Yes, and some municipal buildings.

Mr. SHIPLEY. How closely is this looked into by the State board? Who is responsible for the space?

General HERSHEY. We got the space. This is what we have not lost.

You must remember that in 1940 you had quite a surge——

Mr. THOMAS. He asked a specific question.

General HERSHEY. State headquarters, but unfortunately they do not gain very much. We are fighting a losing battle because everybody is getting so they want their space.

Mr. SHIPLEY. I know of three places in my district where they rent space. In many areas the old courthouses have three stories, but simply because it is three stories the local boards do not want to move in. I think there could be some savings in this area. If you have 4,100 boards, how many are in rural areas and county seats? There is bound to be space available. I know there is space available in my hometown. I don't know what their rent is but I am sure it is $100 to $150 where they are, and the courthouse would be available for about $50.

General HERSHEY. GSA rents this space.

Mr. SHIPLEY. I want to know if anyone in your agency looks after this?

General HERSHEY. I guess I don't get around as often as I should.

Mr. SHIPLEY. Under supplies and materials the request for 1965 is the same as for last year.

Mr. SHIPLEY. Under equipment you have the same as requested in 1964. Is all the equipment listed here?

General HERSHEY. Yes, sir.

Mr. SHIPLEY. What other equipment will you buy?

Colonel ILIFF. Passenger cars.

Mr. SHIPLEY. How much is for automobiles?

Colonel ILIFF. $20,500.

Mr. SHIPLEY. Out of the $100,000?

Colonel ILIFF. That is right.

PERSONNEL COMPENSATION—PROJECT 30

Please insert pages 23 and 24 of the green sheets at this point.
(The material referred to follows:)

PROJECT 30

Detail of personnel compensation

	1963 actual		1964 estimate		1965 estimate	
	Number	Total salary	Number	Total salary	Number	Total salary
Grades and ranges:						
GS-11. $8,410 to $10,650	2	$18,475	2	$16,242	2	$19,900
GS-10. $7,690 to $9,985	1	7,780	1	8,455	1	8,455
GS-9. $7,030 to $9,100	11	81,525	11	86,990	11	88,600
GS-8. $6,390 to $8,280	25	176,440	25	187,260	25	188,940
GS-7. $5,795 to $7,550	63	410,070	63	436,295	64	446,395
GS-6. $5,235 to $6,810	25	141,929	25	157,825	25	158,525
GS-5. $4,690 to $6,130	28	143,980	28	155,338	28	158,011
GS-4. $4,215 to $5,475	9	42,649	9	46,900	9	45,915
GS-3. $3,880 to $4,900	7	29,985	7	30,919	7	31,310
GS-2. $3,620 to $4,565	2	7,645	2	7,870	2	7,975
Ungraded positions at annual rates: Less than $13,615	4,169	17,676,065	4,169	18,001,342	5,841	25,316,470
Total permanent	4,342	18,736,543	4,342	19,135,436	6,015	26,470,496
Deduct: Lapses	59	−475,556	110	−662,708	764	−3,311,725
Net permanent (average number, net salary)	4,283	18,260,987	4,232	18,472,728	5,251	23,158,771
Positions other than permanent		3,311,243		3,532,388		3,789,912
Other personnel compensation:						
Regular pay above 52-week base				145,000		100,544
Overtime and holiday pay		1,335		1,500		1,500
Cost differentials and cost-of-living allowance		8,213		14,634		8,000
Total personnel compensation		21,581,778		22,166,250		27,058,727

National Advisory Committee on the Selection of Physicians, Dentists, and Allied Specialists

Mr. Shipley. We shall proceed now to Project 40.
Please insert pages 80 and 81.
(The pages follow:)

Project 40

Summary of objective classification

		1963 Actual	1964 Estimate	1965 Estimate
11	Personnel compensation:			
	Permanent positions:			
	Civilian	$6,655	$7,530	$7,720
	Military			
	Positions other than permanent	5,207	18,710	19,850
	Other personnel compensation		60	30
	Total personnel compensation	11,862	26,300	27,600
12	Personnel benefits:			
	Civil service retirement contributions	433	500	500
	Group life insurance contributions	23	50	50
	Federal Insurance Contributions Act taxes	178	200	200
	Health benefits contributions	33	100	100
	Employee suggestion awards			
21	Travel and transportation of persons:			
	Administrative travel	4,080	8,000	8,000
	Travel of selectees			
	Rental of passenger vehicles			
22	Transportation of things:			
	Freight, express, and drayage			
	Rental of trucks			
	Parcel post (penalty indicia)			
23	Rent, communications, and utilities:			
	Communication services	518	1,000	600
	Rents and utilities			
	Penalty mail	150	150	150
24	Printing and reproduction	308	400	300
25	Other services		500	100
26	Supplies and materials	154	300	200
31	Equipment	1,246	500	200
	Total obligations	18,985	38,000	38,000

National Advisory Committee on the Selection of Physicians, Dentists, and Allied Specialists

PROJECT 40

The President, by Executive Order No. 10166, dated October 4, 1950, established the National Advisory Committee on the Selection of Physicians, Dentists, and Allied Specialists. This Committee is composed of 12 members. There are also committees and committee chairmen in each State, the cities of New York, Los Angeles, and the District of Columbia, with advisory members of local committees in various counties and districts in each State. There is a national office and 51 field offices.

The Armed Forces fill their requests for physicians, dentists, and allied specialists by commissioning, and only then to active duty, if sufficient numbers do not apply. A special call for members of the profession required is placed on selective service and they are called from our regular registrants who are members of that profession.

The National Advisory Committee has 12 members and an Executive Secretary. Under the terms of the Executive order, Selective Service pays the consultants' fees of each of the members, pays the Executive Secretary who also is reimbursed on a consultant basis and all types of services, supplies, material, and equipment are also furnished. No change is requested in 1965 from the 1964 request.

Mr. SHIPLEY. There is no change here. We went into this last year in great detail. This is where the board determines who should be inducted and who should not.

Colonel ILIFF. This is an advisory committee.

Mr. SHIPLEY. They advise you and you do as you want. Is that right?

Colonel ILIFF. That is right.

Mr. SHIPLEY. Questions on this item, gentlemen?

PERSONNEL COMPENSATION

Please insert page 25, the detail of the personnel compensation on this project.

(The page referred to follows:)

PROJECT 40

Detail of personnel compensation

	1963 actual		1964 estimate		1965 estimate	
	Number	Total salary	Number	Total salary	Number	Total salary
Grades and ranges: GS-9, $7,030 to $9,100	1	$7,125	1	$7,720	1	$7,720
Total permanent	1	7,125	1	7,720	1	7,720
Deduct: Lapses		−470		−190		
Net permanent (average number, net salary)	1	6,655	1	7,530	1	7,720
Positions other than permanent		5,207		18,710		19,850
Other personnel compensation: Regular pay over 52-week base				60		30
Total personnel compensation		11,862		26,300		27,600

NATIONAL SELECTIVE SERVICE APPEAL BOARD

Mr. SHIPLEY. Insert page 82 in the record.
(Page 82 referred to follows:)

PROJECT 50

Summary of objective classification

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions:			
	Civilian	$37,975	$50,930	$51,700
	Military			
	Positions other than permanent			
	Other personnel compensation		200	100
		37,975	51,130	51,800
12	Personnel benefits:			
	Civil service retirement contributions	1,177	1,500	1,500
	Group life insurance contributions	63	90	90
	Federal Insurance Contributions Act taxes	473	875	880
	Health benefits contributions	162	180	180
	Employee suggestion awards			
21	Travel and transportation of persons:			
	Administrative travel	4,273	6,000	6,000
	Travel of selectees			
	Rental of passenger vehicles			
22	Transportation of things:			
	Freight, express, and drayage			
	Rental of trucks			
	Parcel post (penalty indicia)			
23	Rent, communications, and utilities:			
	Communication services	590	775	500
	Rents and utilities			
	Penalty mail	650	650	650
24	Printing and reproduction		200	100
25	Other services		200	100
26	Supplies and materials	87	200	100
31	Equipment		200	100
	Total obligations	45,450	62,000	62,000

Mr. SHIPLEY. This shows no change. The total appropriation is $62,000. This is summary of objective classification, Project 50.
Insert page 83 and the green page 26 at this point in the record.
(The material referred to follows:)

NATIONAL SELECTIVE SERVICE APPEAL BOARD

PROJECT 50

The President, by Executive Order No. 9988, dated August 20, 1948, as amended, created an established the National Selective Service Appeal Board. This Board is composed of three members and has been delegated the power authorized the President to determine all claims or questions with respect to, inclusion for, or exemption or deferment from training and service under the Universal Military Training and Service Act, as amended, and its determination is final.

An appeal to the President (National Selective Service Appeal Board) may be taken by the Director of Selective Service; by a State director of selective service; or in cases of a decision by a State appeal board wherein one or more members dissented, appeal may be made to the President by the registrant, his employer, or his dependents. The National Board may take jurisdiction of any case upon its own motion.

To accomplish the processing of appeals, it is estimated there will be needed in addition to the three board members a total of five employees. Board members are employed on a WAE basis and paid at the salary rate of GS–15. It is estimated they will be employed 75 percent of the time. No change is requested from the 1964 authorized funds.

PROJECT 50

Detail of personnel compensation

	1963 actual		1964 estimate		1965 estimate	
	Number	Total salary	Number	Total salary	Number	Total salary
Grades and ranges:						
GS-15. $15,665 to $19,270: Appeal board member	3	$46,575	3	$50,085	3	$50,085
GS-14. $13,615 to $17,215: Executive secretary	1	13,270	1	14,515	1	14,965
GS-7. $5,795 to $7,550	1	6,095	1	6,575	1	6,575
GS-5. $4,690 to $6,130	1	5,685	1	5,810	1	5,810
Total permanent	6	71,625	6	76,985	6	77,435
Deduct: Lapses	2	−33,650	1.5	−26,055	1.5	−25,735
Net permanent (average number, net salary)	4	37,975	4.5	50,930	4.5	51,700
Other personnel compensation: Regular pay above 52-week base				200		100
Total personnel compensation		37,975		51,130		51,800

Mr. SHIPLEY. This is governed by Executive Order 9988.

Questions, gentlemen?

Mr. BOLAND. What is the turnover in the personnel of the local boards, the membership itself?

General HERSHEY. Pretty small, although we will have to face some increases. Many people came in in World War II. They are getting old. I have given out hundreds of 20-year certificates. You have to do well to get a 20-year certificate.

Mr. BOLAND. They have been a very dedicated group of people.

I have no questions.

Mr. OSTERTAG. It has been a sound system, in a sense, has it not, General?

General HERSHEY. I am prejudiced but unequivocally, yes. We do things where they happen and we let the people down there run their own business.

Mr. OSTERTAG. Here we have a national law which is to a large extent administered on the local level with local people.

General HERSHEY. That is right.

Mr. THOMAS. Anything further?

Mr. JONAS. Your increase is $5.3 million. That is your asking price?

General HERSHEY. Pardon?

Mr. JONAS. The 5.3 million is the asking price. Do you have a settling price?

General HERSHEY. Yes, at least $5 million more than that.

I am not trying to be facetious. I am facing some very terrible situations. We are starting to refer people. Every person rejected is to be referred so we can try to do something with him.

Starting the 1st of July we will have to examine at least some of the 18-year-olds. We will have to classify them.

If the Armed Forces cannot handle them I will be caught with trying to examine those people because we promised them we would make at least a temporary determination on whether they would have to serve or not. I haven't the slightest idea where it will take us.

I am trying to go there unpaid. In World War II we had 14 million physical examinations made for nothing. I wish I thought we could do it again.

Mr. THOMAS. Thank you, General. It is always nice to have you distinguished gentlemen come here.

We like you and we like the way you do business. We also like the way you talk.

General HERSHEY. Thank you very much.

TUESDAY, FEBRUARY 25, 1964.

FEDERAL AVIATION AGENCY

WITNESSES

NAJEEB E. HALABY, ADMINISTRATOR
LT. GEN. HAROLD W. GRANT, U.S. AIR FORCE, DEPUTY ADMINISTRATOR
ALAN L. DEAN, ASSOCIATE ADMINISTRATOR FOR ADMINISTRATION
R. J. SHANK, ASSOCIATE ADMINISTRATOR FOR DEVELOPMENT
DAVID D. THOMAS, ASSOCIATE ADMINISTRATOR FOR PROGRAMS
H. B. ALEXANDER, DIRECTOR OF BUDGET
LEE E. WARREN, DIRECTOR, AIR TRAFFIC SERVICE
A. D'ARCY HARVEY, CHIEF, PROGRAM CONTROL DIVISION, AIR TRAFFIC SERVICE
GEORGE S. MOORE, DIRECTOR, FLIGHT STANDARDS SERVICE
COLE MORROW, DIRECTOR, AIRPORTS SERVICE
M. S. WHITE, M.D., FEDERAL AIR SURGEON
G. WARD HOBBS, DIRECTOR, BUREAU OF NATIONAL CAPITAL AIRPORTS
ROBERT F. BACON, ASSISTANT DIRECTOR FOR FINANCIAL MANAGEMENT, BUREAU OF NATIONAL CAPITAL AIRPORTS
JOSEPH D. BLATT, DIRECTOR, SYSTEMS RESEARCH AND DEVELOPMENT SERVICE
GEORGE P. BATES, JR., ACTING DIRECTOR, AIRCRAFT DEVELOPMENT SERVICE
RICHARD B. LENG, DIRECTOR, INSTALLATION AND MATERIEL SERVICE
DONALD S. KING, DEPUTY DIRECTOR, INSTALLATION AND MATERIEL SERVICE
B. J. VIERLING, DIRECTOR, SYSTEMS MAINTENANCE SERVICE
NATHANIEL H. GOODRICH, GENERAL COUNSEL
JOHN R. PROVAN, DIRECTOR OF MANAGEMENT SERVICES
ROBERT H. WILLEY, ASSISTANT ADMINISTRATOR FOR PERSONNEL AND TRAINING
ARVIN O. BASNIGHT, REGIONAL DIRECTOR, SOUTHERN REGION
DAVID M. MUNSON, DEPUTY DIRECTOR OF BUDGET

Mr. THOMAS. Gentlemen, will the committee please come to order? We are delighted and honored to have with us today our distinguished friends from the Federal Aviation Agency.

We have with us our able and genial Administrator, Mr. Halaby; Deputy Administrator Lt. Gen. Harold W. Grant; Associate Admin-

istrator for Administration, Mr. Dean; Associate Administrator for Development, Mr. Shank; Associate Administrator for Programs, Mr. Thomas; Director of the Budget, Mr. Alexander; Mr. Warren, Director of the Air Traffic Service—you have done a big job, Mr. Warren. We are delighted to see you.

We have Mr. Harvey, Chief, Program Control Division, Air Traffic Service; Mr. Moore, Director of Flight Standards Service; Mr. Morrow, Director of the Airports Service; Dr. White, the Federal Air Surgeon.

The doctor has more employees scattered all over the lot—for the first time he put them in one place in the budget but they are scattered all over the country. They are scattered over a total of 406 places.

Doctor, it is nice to have you.

Dr. WHITE. Thank you, sir. It is nice to be here.

Mr. THOMAS. We have Mr. Hobbs, Director of the Bureau of National Capital Airports; Mr. Bacon, Assistant Director for Financial Management, Bureau of National Capital Airports; Mr. Blatt, Director of Systems Research and Development Service. Where is our scientist, here?

Mr. BLATT. Right here, sir.

Mr. THOMAS. It is good to see you again. What are you working on now?

Mr. BLATT. Resolving some of these problems and presenting to you some of the products of our research and development in the implementation budget.

Mr. THOMAS. You have nothing hot, have you?

Mr. BLATT. Yes; sir; we really do.

Mr. THOMAS. Mr. Bates, Acting Director, Aircraft Development Service.

We have Mr. Leng, Director of Installation and Materiel Service; Mr. King, Deputy Director, Installation and Materiel Service; Mr. Vierling, Director, Systems Maintenance Service. We have Mr. Goodrich, the general counsel.

Are you lawyers doing all right?

Mr. GOODRICH. We are doing our best.

Mr. THOMAS. We have Mr. Provan, Director of Management Services; Mr. Willey, Assistant Administrator for Personnel and Training; our old friend Mr. Basnight, regional director, southern region. Judge Basnight, we are delighted to have you. How did you get up here?

Mr. BASNIGHT. On scheduled airline, sir, tourist ticket.

Mr. THOMAS. We have Mr. Munson, Deputy Director of the Budget.

Mr. Halaby, it is good to see some of your regional directors here. Why don't you bring two or three every year? I think it would be money well spent. I understand you have a few planes on which they can thumb a ride. I think it would be good for them, good for the Agency, and good for the committee to have them in here and let them see how things operate. It would help them and help us all. We are delighted to have all of you.

We like to talk to you. Your subject is a very interesting one. You hold in the palms of your hands, so to speak, the lives of thousands of people every year, and we have great respect for you.

It is not often we disagree with you.

What became of our old friend who was out in Los Angeles?

Mr. HALABY. Mr. Tippets.

Mr. THOMAS. How is he doing?

Mr. HALABY. He seems to be doing very well, Mr. Chairman. As you know, there has been a practice of rotation instituted, rotating our best people from field to headquarters in order to refresh both areas. Mr. Tippets was sent there and Mr. Basnight sent to Atlanta.

Mr. THOMAS. That makes sense.

WESTERN REGION HEADQUARTERS SPACE

Did Mr. Tippets get a big office there? What became of that property across the street there that was federally owned? Are you renting that building he was in, where we spent $200,000 to revamp it? Who owns the vacant property across the street and how did you let that get away from you?

Mr. HALABY. The headquarters now is in a World War II Government-owned plant which was occupied at that time by Douglas Aircraft Corp.

Mr. THOMAS. Is that the building which was remodeled?

Mr. HALABY. Right across the street from that plant there is a modern building.

Mr. THOMAS. This was not modern. It was an old building and $200,000 to $300,000 was used to patch it up and it was leased.

Mr. HALABY. That is right.

Mr. THOMAS. That was 4 or 5 years ago. The money already had been spent. It might have been spent by your predecessor, though.

Mr. HALABY. I will get the exact date we leased that building.

Do we have that with us?

Mr. DEAN. The building across the street was provided about 3 years ago and I believe it is a GSA-provided building to augment the space in that old converted hangar, which is Government property. We can give you all the facts on it.

Mr. HALABY. It is interesting that you would bring this out at this time because we are right in the midst of trying to get a decent modern building to replace both of them, and there is a considerable amount of Government property around the Los Angeles International Airport.

For example, we have been able to obtain from the Navy a hangar on the airport which was Government property. We have rehabilitated that as the headquarters of all our aircraft and maintenance operations in the Los Angeles area.

In fact, President Johnson met President Mateos on the ramp of that area, which is next to North American on the south side of the field.

GSA at the moment is considering how to provide modern space for the Agency there and we are hopeful that they can come up with an answer.

As you know, it has been under consideration for several years.

Mr. THOMAS. Have you a statement for us, Mr. Chairman?

Mr. HALABY. Yes, sir.

If it pleases the committee I would like to open with the first two pages of this statement and then give the committee something we

have failed to give in the past—a kind of general background for the committee to consider, and with the Chairman's concurrence we will ask the committee briefly to go in the adjoining room where we have a display.

Mr. THOMAS. Whatever you want to do, we shall be glad to see it.

Mr. HALABY. The display was prepared by some of our own employees, and shows how the system works and what it looks like.

Many of you gentlemen have been to some of our facility sites—you know what they are, and you are fully familiar with their purpose. However, one or two of you have not had an opportunity to visit one of our facilities and we feel we really should let you see something rather than just hear our words.

GENERAL STATEMENT

I am happy to appear again before the Committee on Independent Offices—this time to present the budgetary requirements of the Federal Aviation Agency for the 1965 fiscal year. This is the fourth time that I have been privileged to present our estimates. It is of particular meaning this year since the President's budget is the tightest and tautest budget ever presented by the FAA, calling as it does for a reduction in both positions and new obligational authority. This means that the assurances which I have previously given the committee that the Agency's growth would level off have in fact been realized and documented in cold print this year.

DECREASE IN POSITIONS

You will recall that when I appeared before you in defense of our 1962 fiscal year appropriations we requested 2,629 additional positions. In 1963 we sought an additional 3,998 positions. By last year we had substantially checked the Agency's rate of growth, but we still requested an additional 1,030 positions. For 1965 the Agency not only plans to meet its obligations to the public and the aviation community without additional employees, but it is in fact proposing 754 positions fewer than authorized for the current fiscal year.

Mr. THOMAS. Give us one figure in our minds.

Mr. HALABY. Yes, sir.

Mr. THOMAS. With regard to your budget, I think it is by far the most comprehensive we have seen. It is excellent. We have enough information there to satisfy everybody's desire.

COST OF PAY INCREASE

Tell us what your overall pay increase cost is. It cost you about 2½ percent. Also give us three other figures—the last increment of the pay increase, the ingrade promotion, and your consultants and other WAE employees. Pull that together in one spot. Can you do it right now?

Mr. HALABY. Yes, sir. The second phase of the overall pay increase was effective for a period of 6 months in fiscal year 1964. For fiscal 1965 the increased requirement is $9.3 million.

Mr. THOMAS. Are you sure that is not for operations alone? I refer to agencywide. The justifications are clear in each section of

the budget, what the pay act cost you. I am talking about a wrap-up figure for all of them.

Mr. HALABY. That was for operations; you are right, sir.

May we have just a moment to work that out?

Mr. THOMAS. Yes.

Mr. HALABY. The figure for operations as a building block——

Mr. THOMAS. That is already in the record. We will get to that and we know what that is.

Give us the overall figure and get it in the record now because I cannot find it in your justifications.

Operations is about 90 percent of all of it so it would not be difficult to get the rest of it.

Mr. HALABY. For fiscal 1965 the increase for phase 2 pay increase for operations is $9.3 million. There is an additional amount of $900,000 for other accounts, or a total of $10.2 million.

Mr. THOMAS. We will get it segment by segment. The justification is clear. We want a wrap-up figure agencywide as to what it cost you.

Mr. HALABY. That is agencywide——

Mr. THOMAS. The other $900,000 covers it agencywide?

Mr. HALABY. Yes.

Mr. THOMAS. A total of $10.2 million?

Mr. HALABY. Yes.

Mr. THOMAS. That is about a 2½-percent increase. What will the ingrade promotion cost you agencywide? Those are important figures and matters you cannot control. Not all ingrade promotions are mandatory but the largest portion of them are.

Mr. HALABY. We have them by separate account and we will have to add them up.

The third category was consultants?

Mr. THOMAS. WAE, when actually employed, consultants, or whatever it is. It is a third classification.

M. HALABY. They are the same as last year so there is no additional request for any part-time consultants or others.

Mr. THOMAS. What is the horseback opinion?

Mr. HALABY. A little more than $10 million. We have it under "Other pay adjustments" in the separate accounts.

Mr. THOMAS. That is right. We want it all together.

Mr. HALABY. We will correct this figure and give it more precisely. However, roughly it is about——

TOTAL PAY ACT AND PROMOTIONS

Mr. THOMAS. Pay increase is about $10.2 million. What is the ingrade promotion cost?

Mr. HALABY. Within grade it is $6.6 million in fiscal 1965, and grade to grade in fiscal 1965 it would be $4.6 million.

Mr. THOMAS. That is $12 million, then?

Mr. HALABY. Yes, sir.

Mr. THOMAS. That is the pay increase over which you have no control.

Mr. ALEXANDER. This is in addition to the Pay Act of 1962 figure.

Mr. THOMAS. We understand that. We are talking about the actual increase by operation of law for 1965.

Mr. HALABY. That is right.

Mr. THOMAS. Ingrade it is $6.6 million. Pay act, which is about 2½ percent, amounts to another $10.2 million, so you have $16.8 million.

Mr. HALABY. Then grade to grade—going from one grade to a higher grade, normal promotion.

Mr. THOMAS. What did that cost you?

Mr. HALABY. $4.6 million. We have $10.2 million of regular pay increases regardless of promotion; $6.6 million within grade; we have $4.6 million advancing from one grade to the next higher grade.

Mr. THOMAS. $21.4 million, then?

Mr. HALABY. Yes, sir.

Mr. JONAS. Increase?

Mr. THOMAS. $21.4 million. The $4.6 million is a grade jump. How many people are involved in that?

Mr. HALABY. As you know, Mr. Chairman, this is a competitive merit system. We can only make an estimate as to how many people would merit promotion. Our estimate for the fiscal year 1965 is that 3,737 people would merit a promotion from one grade to another.

Mr. THOMAS. That is an administrative determination. Civil service has nothing to do with that. You do your own promoting.

Mr. HALABY. If qualified by the civil service regulation.

Mr. THOMAS. That is in the neighborhood of 8 percent of your total personnel load. They got a promotion, and then a large percentage get an in-grade promotion in addition to that, so the Agency is doing all right.

So far so good. We will go into that in detail later.

Go ahead with your statement. I just wanted that in the record at this point.

ADJUSTMENTS IN BUDGET

Mr. HALABY. I think it is fair to say that the categories the chairman has just covered, within grade, grade to grade, and pay raises due to the Salary Reform Act, plus the commissioning of additional facilities which are ready to come into the system in fiscal 1965, account for the increases in the budget. The way we have been able to reduce the total budget is to decrease the number of personnel in the rest of the budget.

Mr. THOMAS. You have decreased it by 750 employees and increased it dollarwise by about $20 million. You have two programs here for which you have no funds and are not seeking funds for.

You have a little summary page here.

Mr. HALABY. Six has an overall summary and then there is another on page 9.

Mr. THOMAS. Turn to page 6 of the summary book and get a bird's-eye view of it.

It shows here that you come up with a reduction of 754 employees and a reduction of $75 million. That $75 million, however is a bookkeeping figure. When you get through I am sure you have the reduction of 754 employees, but instead of having a minus $75 million, in truth and in fact you have a plus $20 to $25 million, so we will have to straighten that out later.

Mr. HALABY. If we go right down the items, Mr. Chairman, the increase is in operations. Where we have a reduction in number of employees but an increase in appropriation; a reduction in employees and appropriation which offsets the operations——

Mr. THOMAS. Go ahead with the statement and we will straighten this out.

Mr. HALABY. Comparing them category by category our budget, sir, is less by 754 employees.

Mr. THOMAS. There is no argument about that. We are talking about the dollars.

Mr. HALABY. And less in total dollars by $15 million.

Mr. THOMAS. There is a difference between $15 and $75 million.

Mr. HALABY. All right, sir.

Mr. THOMAS. Go ahead. There is no argument there. We all understand each other.

Mr. HALABY. The Agency has been most appreciative of the support which the Congress has given to its programs since its establishment in 1958. We have, therefore, felt a special obligation to hold positions and expenditures to lower levels than those approved by the Congress, if any means to do so could be found. Although the Agency continued to grow during the 1962–64 period, fewer employees were added in those 3 years combined than in the 1961 fiscal year alone.

The effect of Federal pay increases and the need to maintain and operate additional facilities scheduled for commissioning during the 1965 fiscal year has made it extremely difficult to reduce our total funding needs. We have, however, asked for total appropriations of $15 million less than approved by the Congress for the 1964 fiscal year, for comparable appropriations.

GROWTH IN AVIATION

We are thus coming before the Congress asking for fewer positions and less money in the face of a continued steady growth in aviation. During the 1963 calendar year total operations handled by FAA air traffic control towers increased 7 percent, instrument operations increased 3 percent, revenue-passenger-miles increased about 6 percent, and jet fuel consumption increased 20 percent. Our forecasts for 1964 and 1965 indicate a continued growth in virtually every aspect of aviation.

If the committee pleases, I would like to run through some charts we have taken out of our regular management information center. I will try to give trends only because it is not possible to read them from across the table.

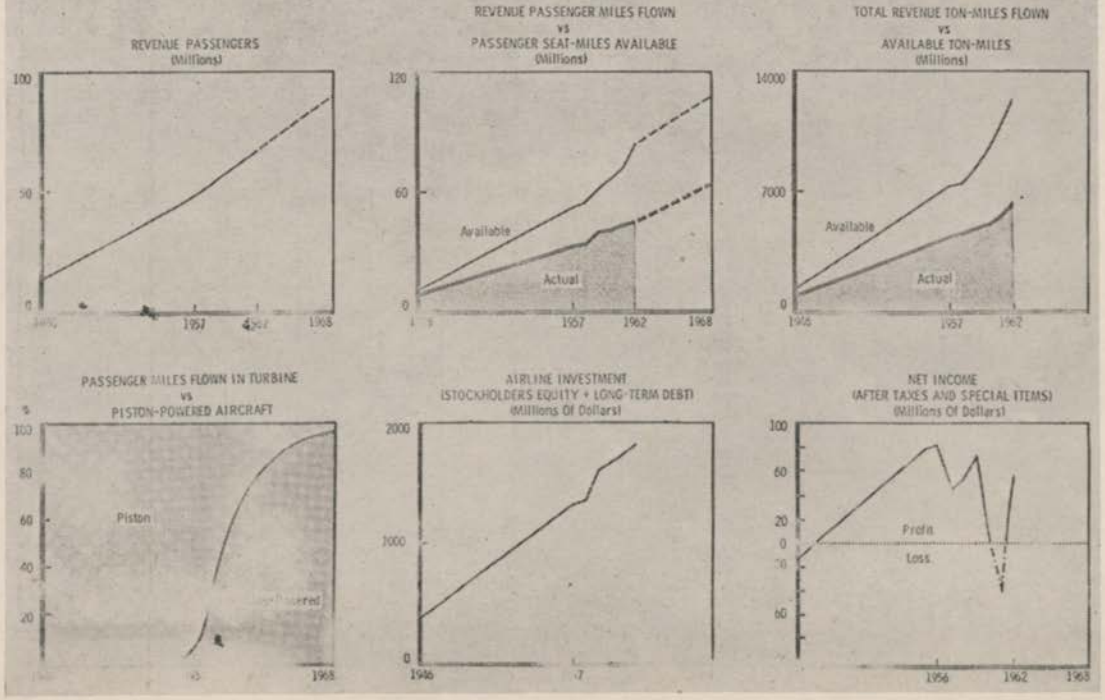
Briefly, revenue passengers from 1946 to the present have increased from about 20 million to approximately 70 million in this period.

Passenger-seat-miles available versus revenue-miles flown shows a steady increase, with the actual seats occupied rising almost in parallel with those available.

Federal [illegible]cy

AIR CARRIER TRENDS

TOTAL CERTIFICATED U.S. INDUSTRY, DOMESTIC & INTERNATIONAL



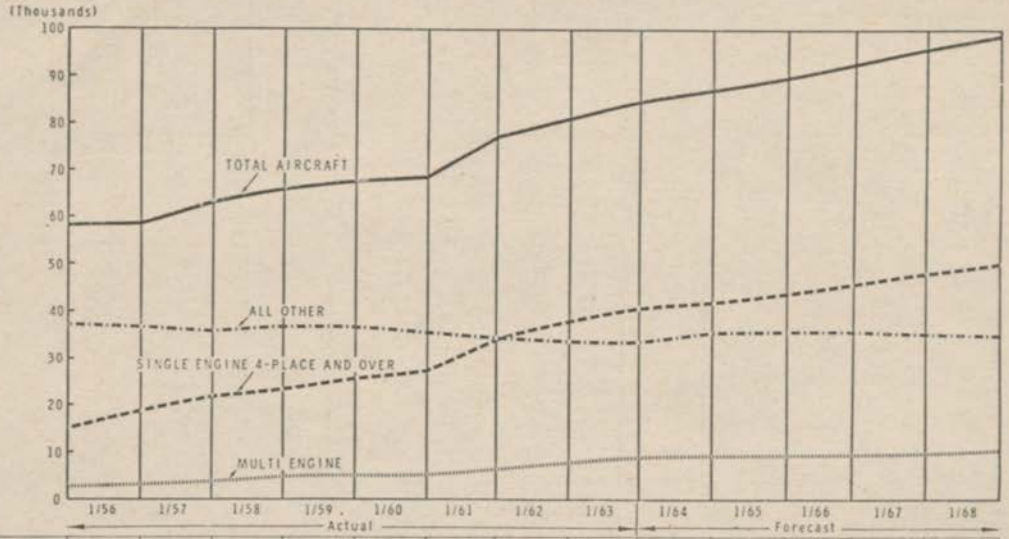
1073

Federal Aviation Agency

ACTIVE GENERAL AVIATION AIRCRAFT

By Type of Aircraft

1956 - 1968



MULTI ENGINE	3342	4183	5036	5416	6034	7243	8401	9186	9500	10000	10800	11600	12200
SINGLE ENGINE 4-PLACE +	19240	22805	23751	26170	27301	34327	38206	41120	42200	44200	46400	48800	51400
ALL OTHER*	36208	35898	36502	36253	35392	34979	34025	33815	35800	35800	35800	35600	35400
TOTALS	58790	62886	65289	67839	68727	76549	80632	84121	87500	90000	93000	96000	99000

*Includes: Single Engine 3-place or less; Turbocraft; Balloons; Gyroplanes and Gliders

Mr. HALABY. The same is true of total revenue-ton-miles flown against available ton-miles.

This chart showing passenger-miles flown in turbine aircraft versus piston aircraft shows that until about 1957 there were no turbine powered aircraft and by 1968 the fleet will be almost 100 percent turbine—a transfer from piston to turbine aircraft.

Then we look at what the air carrier industry has been doing in terms of adding to stockholders' equity. In 1946 it was around $225 million. In 1962, end of year, it was almost $2 billion, about $1,850 million.

The net income after taxes and special items, such as depreciation, from 1946 showed a steady rise. Then there was a cyclical rise and fall in 1956 and 1957, and then due largely to the writeoff of investment through depreciation in 1961, 1962, 1963 there were deficit years in 1961 and 1962.

Now there is a steady rise until in the year 1963 the airlines have had the best net income in their history.

That is a very brief picture of the growth in air carrier aviation. Now we would like to refer to the noncarrier, nonmilitary aviation. This is the total number of aircraft in January of 1956, about 60,000 commercial, private, and personal aircraft.

That number has grown so that at the first of the year 1964, there were about 86,000 total aircraft. This compares with 2,000 air carrier aircraft, or some 43 times——

Mr. THOMAS. If you would yield briefly. You say 86,000 aircraft. They are all American made, or most of them?

Mr. HALABY. About 95 percent.

Mr. THOMAS. Does that indicate a tremendous volume of aviation? That has nothing to do with military planes?

Mr. HALABY. That is right.

Mr. THOMAS. Does that mean, then, that the general aviation industry is on its feet and could be self-supporting outside of Government business, outside of military planes? In the early days the Government bought the land, built the buildings, bought the tools, and so on for the aircraft industry. Is that correct?

Mr. HALABY. Yes, sir; in World War II and the Korean war there was a very heavy investment of public funds into the airframe and engine industry.

Mr. THOMAS. World War II was a buildup of what already had been placed in status quo by the Federal Government for the military industry.

Mr. HALABY. Yes, sir.

Mr. THOMAS. You mean to say that this aviation complex we have now can stand on its own feet without Government business?

Mr. HALABY. I think you have to analyze it by company and by segments of the industry.

For example, Mr. Chairman, the industry which produces these aircraft is the industry composed of Beach, Cessna, Piper, and other companies which build single and smaller multiengine aircraft. They built about 7,000 aircraft in the year 1963.

Mr. THOMAS. Do those people enjoy some Government and military business, too?

Mr. HALABY. They make trainers and do subcontracting for military contractors. These companies are earning something on the order of $150 million a year off business and commercial purchases of aircraft.

The big boys in the industry, such as those who build the military fighters, bombers, and reconnaissance aircraft——

Mr. THOMAS. Name them.

Mr. HALABY. Starting at the coast, those companies are companies like Boeing, Lockheed, North American, Douglas, Convair, McDonald in the Middle West, and then the engine manufacturers such as United Aircraft, General Electric, and Curtis-Wright. Those large companies, now known as areospace companies, have a few aircraft in their production line and more and more space and satellite vehicles. Those contracts are usually cost-plus-fixed-fee contracts, little or no risk contracts.

The contracts for these general aviation aircraft, of course, are fixed price commercial contracts.

Mr. THOMAS. Highly competitive, then?

Mr. HALABY. Highly competitive.

FOREIGN COMPETITION

I might add in both categories, general aviation aircraft and air transport aircraft, we are getting increasing competition from British, French, German, Italian, and Japanese industry whose labor costs are lower, whose engineering is quite ingenious, and whose governments, either through nationalization or other subsidy, are continuing to support them, so we have a mixed picture of a relatively prosperous private, commercial small plane——

Mr. THOMAS. As good as ours?

Mr. HALABY. In some respects as good and in a few respects better than ours. In the French, British, and German area they have been in airplane production as early, and in some cases, longer than the United States.

Mr. THOMAS. We were led to believe that by virtue of our 65 or 70 air tunnels, big ones, little ones, and so on, scattered throughout the United States we were able to design and test and come out with a better airplane than anybody else in the world. We have fewer accidents due to more thorough testing and better engineering based upon testing.

How true is that?

Mr. HALABY. I believe we have that capability. What I am referring to is this: Due to lower labor costs and their concentration on particular segments of the market they are just as able to compete as we are and in some respects outdo us.

Mr. THOMAS. We are talking about two things. One is cost and the other is safety.

Mr. HALABY. Yes, sir. The safety record of foreign built aircraft which we have accepted into our fleet is comparable with our own. For example, the Viscount——

Mr. THOMAS. There is added attraction of lower cost?

Mr. HALABY. Lower cost, even after paying duty.

The Viscount for a long time led the turbine-powered fleet in the United States.

The Electra came along and began to outsell it in the U.S. air fleet. Their overall accident record is not too different. There were a lot more spectacular Electra accidents but over the years that accident rate has come down, as I will show you in a moment.

NUMBER OF U.S. AIRCRAFT

I think the main thing here, Mr. Chairman, is that the ratio of aircraft is important and often forgotten. There are only 2,000 scheduled airliners. There are about 23,000 active military aircraft, but all the rest of aviation is more than three times as numerous; namely in the personal, single and multiengine small aircraft where we have 86,000. It is rapidly growing until we see in 1968 100,000 and in 1975 about 105,000.

Mr. THOMAS. In other words, you have 86,000 active private planes in the air. You have 23,000 military planes in the air, and you have 2,000 scheduled commercial?

Mr. HALABY. Airliners, yes, sir.

Mr. THOMAS. How many planes is that; 111,000 in the air?

Mr. OSTERTAG. That is in continental United States.

Mr. HALABY. Yes. Some of these fly abroad but they are based here in the United States. This shows the hours flown by the general aviation aircraft in a year. The hours went from about 11 million in 1957 to approximately 15 million in 1963. We estimate it will go on up to 17 million in 1968.

I believe it is significant that this most rapidly growing segment of aviation is private and commercial and it is not fully appreciated.

AIRCRAFT OPERATIONS

Here is the total number of aircraft operations at airports having FAA control service.

The air carriers have steadied at about 7 million operations per year during the years 1961, 1962, 1963.

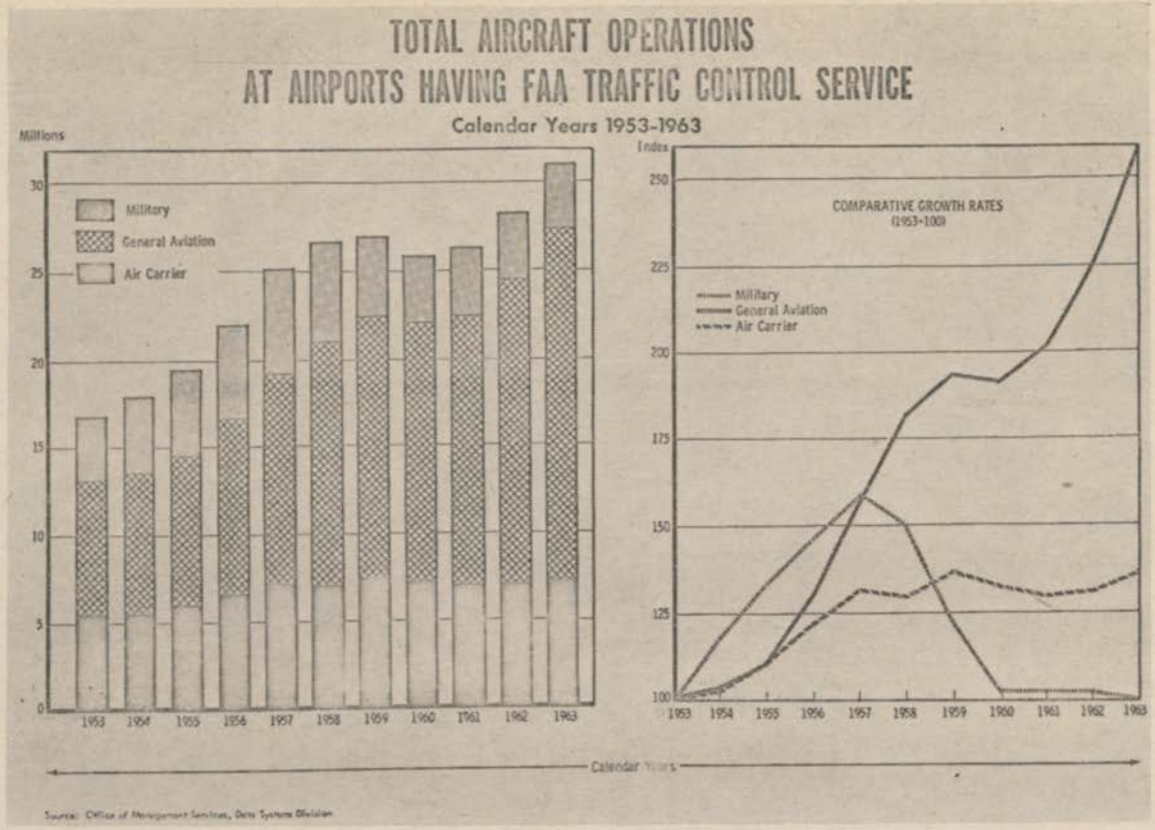
The general aviation aircraft have steadily increased from approximately 8 million at this point to a present total of 20 million.

In the military operations at these predominantly civil airports, where there is a FAA tower, there has been a decline and at the present time they are only about 3½ or 4 million. That does not include their operations, of course, at military airports.

Growth rates as you can see from this chart shows a rapid increase in the general aviation, a decrease in military, and a level air carrier rate.

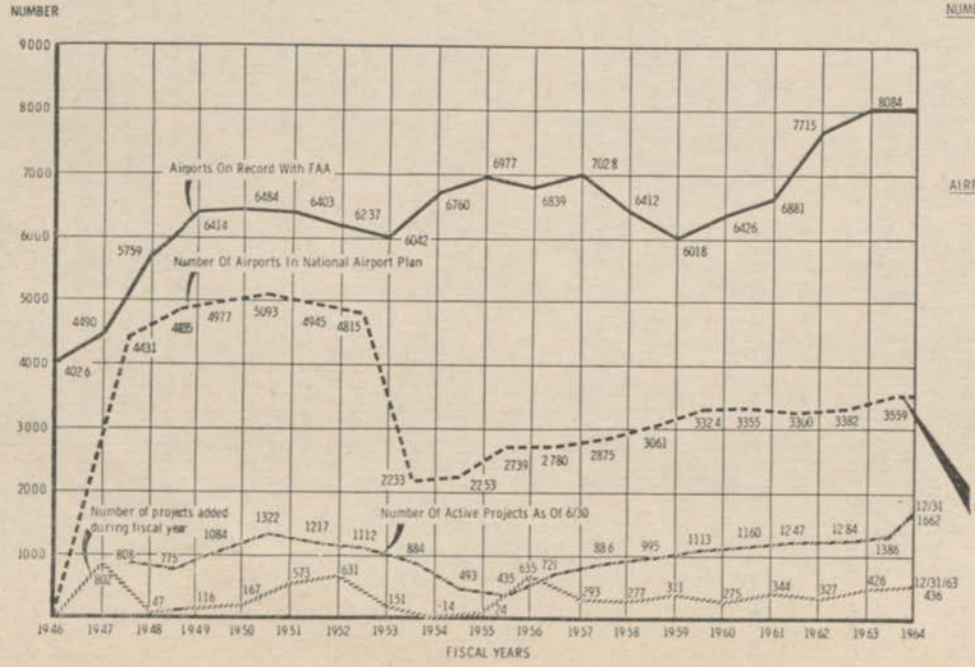
AIRPORTS SYSTEM

This shows number of airports in the United States, a total of 8,000. Only about 3,500 are in what we call the national airport plan.


TOTAL AIRCRAFT OPERATIONS
AT AIRPORTS HAVING FAA TRAFFIC CONTROL SERVICE
Calendar Years 1953-1963
Millions
Military
General Aviation
Air Carrier
0
5
10
15
20
25
30
1953
1954
1955
1956
1957
1958
1959
1960
1961
1962
1963
Index
COMPARATIVE GROWTH RATES
(1953=100)
Military
General Aviation
Air Carrier
100
125
150
175
200
225
250
Calendar Years

Federal Aviation Agency

AIRPORTS SERVICE ENVIRONMENTAL CHART



NUMBER OF AIRPORTS, BY REGION

As Of 12/31/63	
EA	1943
SO	771
SW	1122
CE	2245
WE	1528
PC	44
AL	431
TOTAL	8084

AIRPORTS SERVICE EMPLOYMENT

As Of 6/30	
1947	636
1948	761
1949	709
1950	565
1951	556
1952	442
1953	351
1954	175
1955	214
1956	275
1957	310
1958	354
1959	422
1960	431
1961	444
1962	469
1963	500
1964	500 (12/31/63)

AIRPORTS IN 1963 NAP

By Regions	
EA	661
SO	460
CE	1004
SW	475
WE	579
AL	364
PC	16
	3559

TOTAL AIRPORTS RECEIVING FAAP FUNDS FROM 1946 TO 12/31/63 - 1887

Mr. HALABY. We have some 1,600 projects in the Federal aid program, of which 436 were added last year. This gives us the most numerous, the safest, and perhaps the best airport system of any country.

Mr. EVINS. Why is the percentage of those not in the Federal Aviation Airport plan so low as compared to the total airports in the country?

Mr. HALABY. The principal reason is that many are privately owned airports. The Federal Airport Act, up for extension and now before conference between the House and Senate, provides that it must be a publicly sponsored airport to receive aid, so that the first hurdle of being a public airport eliminates more than half of the airports which are strips and private airports run for profit.

The second criterion is the formula for State-Federal allocation which eliminates some more, and then we have a hard core of about 276 airports with towers, about 600 airports with local service airline operation, and about 65 where jets now operate.

JURISDICTION OVER PRIVATE AIRPORTS

Mr. THOMAS. Have you any jurisdiction over private airports when the commerce in and out is interstate?

Mr. HALABY. Yes, sir. If the airport is used by airplanes in interstate commerce the airplane and the airman who flies it and maintains it are subject to regulation by the Federal Aviation Agency.

The Civil Aeronautics Board, of course, regulates carriers for hire out of private airports, and there are some cases of the——

Mr. THOMAS. Confine it now. Don't get into carriers. I have one in mind.

Off the record.

(Discussion held off the record.)

Mr. OSTERTAG. What about traffic control?

Mr. HALABY. I was coming to that. The pilot must have a license from the FAA. The airplane must have a registration and an airworthiness certificate from FAA.

The mechanic who maintains it must have a certificate.

Mr. THOMAS. Are you dealing with personnel? We are talking about the physical property and the equipment on that property.

Mr. HALABY. Well, with respect to that there is a section of the Federal Aviation Act of 1958, section 309, to which you may be referring. I quote:

> In order to assure conformity to plans and policies for allocations of airspace by the Administrator under section 307 of this act, no airport or landing area not involving expenditure of Federal funds shall be established, or constructed, or any runway layout substantially altered unless reasonable prior notice thereof is given the Administrator, pursuant to regulations prescribed by him, so that he may advise as to the effects of such construction on the use of airspace by aircraft.

Mr. THOMAS. That was passed when?

Mr. OSTERTAG. Is that the original act?

Mr. THOMAS. Setting up FAA.

Mr. HALABY. This was first in the act establishing the Federal Aviation Agency in 1958.

Mr. OSTERTAG. I am not sure of the point the chairman was trying to arrive at or the answer he was seeking, but in my mind, Mr. Adminis-

trator, there is a question of how you control and regulate the airspace and all safety aspects where it is privately owned and privately operated, without associated facilities to do that. How does that work?

Mr. HALABY. The air traffic rules are prescribed for pilots and crewmen regardless of where they take off and land. In other words, once they get into airspace, they must conform to rules. If there is a privately owned tower—and they are very rare—the tower operator must have an airman's certificate just as though it were a Government-operated tower.

Mr. THOMAS. That is true, but the airport I have in mind has its own tower. Does he work hand in glove with your center, and does the pilot work with your center? Does your center hand off this particular plane that this pilot will land at the airport? It appears to me he is operating over and beyond and outside of your jurisdiction and, if he does, he is certainly muddying the water from the safety point of view; is he not? He is not in your pattern, in other words.

Mr. HALABY. I shall ask Mr. David Thomas to supplement this answer, Mr. Chairman, but the first answer is that this man, because he has a certificate and because he must follow the Federal air regulations, is always subject to the surveillance and enforcement of the FAA. It is a fact that most of the pilots who fly out of these private airports fly what we call visual flight rules, and they are not under instrument flight rules. When they do fly under instrument flight rules, Mr. Thomas will explain how they come into the pattern and into the system.

Mr. DAVID THOMAS. Mr. Chairman, the pilots operating off that field, and others like them, are under the same identical rules as they are when they operate off a field with FAA facilities. If they fly in good weather without a flight plan, they conform with what we call the rules of the road. That is, they give way——

Mr. THOMAS. "See and be seen."

Mr. DAVID THOMAS. "See and be seen." If the weather is bad and they take off there, they file a flight plan with the FAA.

Mr. THOMAS. Under your rules and regulations, if the weather is bad, if you had your own tower, you would not let him take off. Suppose he does take off.

Mr. DAVID THOMAS. If he takes off below minimums or under conditions which he should not, he would be in violation. The question is whether or not we would catch him, of course.

Mr. OSTERTAG. Mr. Thomas, in most aircraft operations that you regulate and control, you give them flight space, do you not? There is a certain altitude that they must follow, and that is one way that you avoid accidents, collisions, and conflicts, because they have a certain level that they are granted by you people. Is that right?

Mr. DAVID THOMAS. Yes, sir. In case of what we call instrument flight rules where you cannot see out the cockpit due to cloud or rain, we do control them, regardless of where the aircraft takes off from or what his destination was.

Mr. OSTERTAG. But they have no such instructions from you?

Mr. DAVID THOMAS. Yes, sir; they do.

Mr. OSTERTAG. Where do they get those instructions, those flight spaces, and so on?

Mr. HALABY. Mr. Ostertag, when the tower says to the pilot, "You are cleared to taxi out to runway 18," and he taxis out, the next thing he usually says on a routine day is, "Cleared for takeoff." That is the only instruction he frequently gives him, particularly at the smaller airports. At the ones where there are no towers at all, all he does is taxi out, look around and take off. You might say those are his tactical monetary instructions. Behind, in his head, is a big, thick book of regulations about the rules of the air. He must observe those at all times.

For example, he must not descend below a certain altitude over a metropolitan area. When he is flying on a course of 0 to 179°, he must fly at a prescribed altitude plus 500 feet. There are traffic rules that guide him, no matter where he takes off and lands.

Mr. OSTERTAG. How is that prescribed to him in a case where there is no tower and no control? It is a private operation. Surely, he follows the rules, and there are certain requirements, but how do you regulate him? Is that from a distant tower many miles away?

Mr. HALABY. If he is flying the "see and be seen" rules, which is normal for this kind of pilot, then we assume, until he is proved guilty, that he is obeying the rules, to save his own neck and to save others. We then work, on the controlled part of the system, those aircraft that are under instrument flight rules and under positive controls. We tell them altitudes that are available. Then we advise them of this uncontrolled traffic. They are frequently told, "We have an unidentified aircraft at 12 o'clock to your flight path, slow, nonbeacon." That means usually a low-altitude, smaller aircraft. Then the airline pilot and the military pilot looks down to see it. That is the way we segregate the controlled and the uncontrolled.

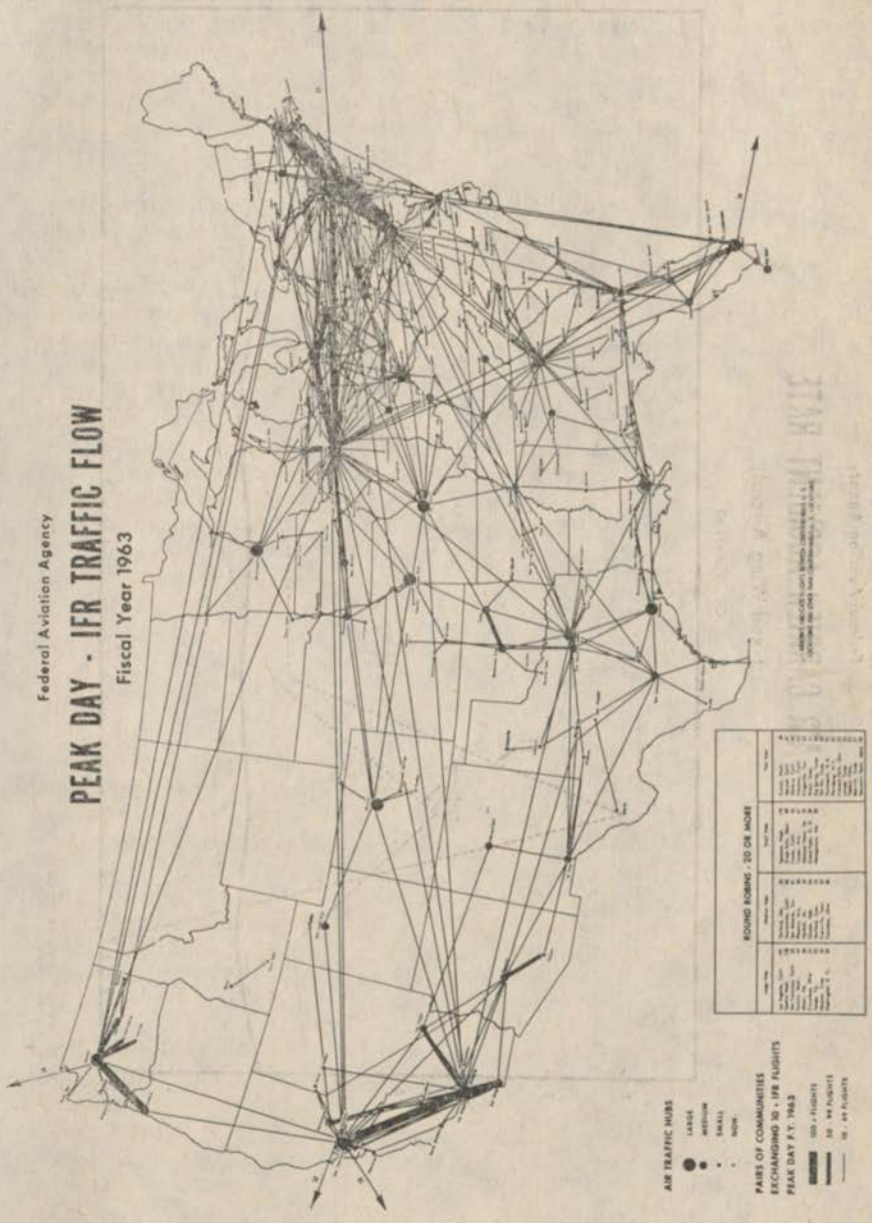
PATTERN OF AIR TRAFFIC

On any one day, for example, in fiscal year 1963, we have these kinds of aircraft in our system. The red dots are large air traffic hubs, such as Houston, Dallas-Fort Worth, Los Angeles, San Francisco, Seattle, and these heavy red portions show there are more than 10 instrument flights per day in that area.

The blue or medium hubs, show 50 to 99 instrument flights. There will be, in addition to this, 1 million flights on VFR in the relatively uncontrolled part of the system.

ACCIDENT STATISTICS

Coming to the accident record, it is very hard to get really meaningful statistics because what we are most interested in is preventing accidents, not recording them after they have happened. Here is one statistical way of presenting it, perhaps the harshest, the most skeptical, and rigorous way to present them, for air carrier accident rates of fixed-wing aircraft, calendar years 1957–63. The rate of accidents per 100,000 hours. This is not the rate of fatal accidents. This is the rate of accidents, all accidents.

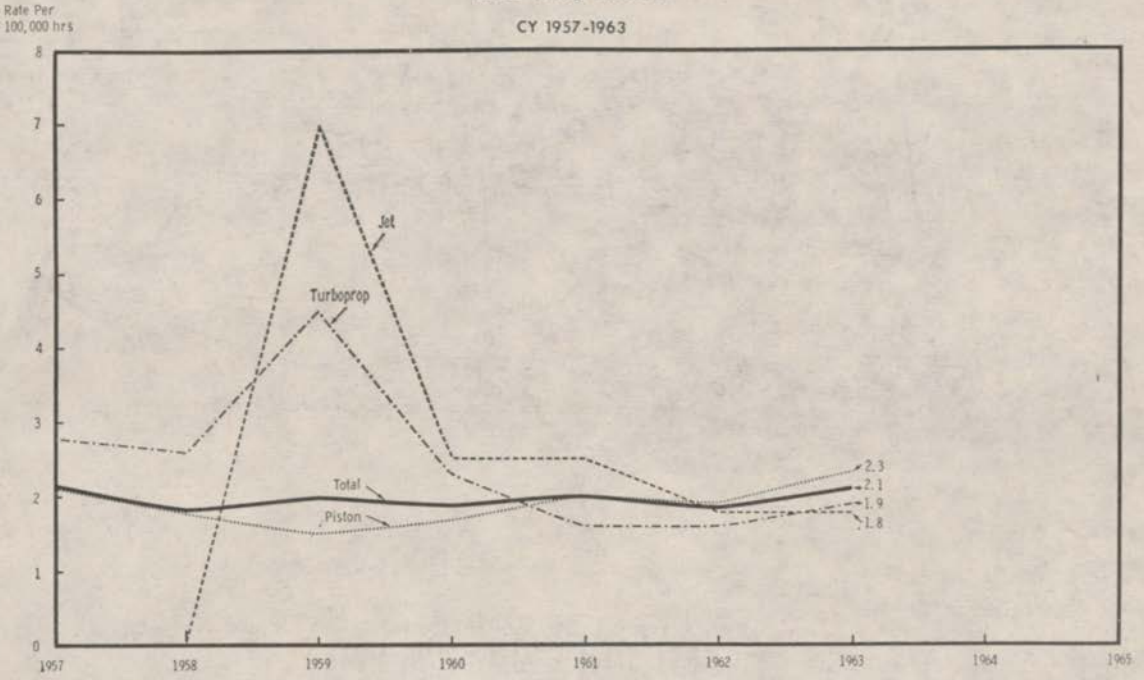

Federal Aviation Agency
PEAK DAY - IFR TRAFFIC FLOW
Fiscal Year 1963
AIR TRAFFIC HUBS
LARGE
MEDIUM
SMALL
NON
PAIRS OF COMMUNITIES
EXCHANGING 10 + IFR FLIGHTS
PEAK DAY F.Y. 1963
100 + FLIGHTS
50 - 99 FLIGHTS
10 - 49 FLIGHTS
ROUND ROBINS - 20 OR MORE

Federal Aviation Agency

AIR CARRIER ACCIDENT RATE

Fixed Wing Aircraft

CY 1957-1963



NOTE: Includes all certificated carriers except helicopters.
Excludes accidents not incident to flight.

Mr. HALABY. You will notice a very interesting trend here. You will notice that from 1958, when the jets were introduced, the rate went up to as high as 7 for 100,000 flying hours, and then began to descend until in 1960 it had dropped to less than 3 and it reached a low in 1962 of about 2. This rate in 1963 continued to descend for the jets to 1.8 in 1963.

For the turboprop or the prop-jet aircraft, the rate in 1957 was about 2.8, went up to a high of 4.8, descended to a low of about 1.8 in 1961, and has increased slightly to 1.9 in 1963.

For the piston aircraft which have been in the fleet for years, the rate in 1957, was 2.1; it went down to a low of about 1.85 in 1959, and it has remained pretty steady until the last year, when it went from 2.0 to 2.3 accidents.

You see this does not show how many passengers are involved. This chart shows how many accidents related to hours flown. So, one aircraft could be flying with five people in it in one of these 100,000 hours. So, there is no relationship to the demand or the occupancy.

Here is a presentation of roughly the same period showing fatalities domestic scheduled air transport planes per 100 million passenger-miles. That is the number of miles flown multiplied by the number of passengers.

In 1957, it was 0.1 accidents per 100 million passenger-miles. It went up to 0.4 in 1958, 0.7 in 1959, and 1.0 in 1960. It has come down to 0.38, 0.35, 0.11 in 1963.

Obviously, comparing these two charts, the reason for this is the very much higher speed and range and, therefore, the millions of more miles flown and passengers carried. We do not put our faith in that. That looks great, but the accidents per 100,000 flying hours is what we observe.

I am sure on a day like today, when we have awakened—some of us have been up since 4—concerned about a particular accident that will make the headlines, it is interesting to look at the comparative accident data—that is, deaths, fatalities per 100 million passenger-miles. The source of this information is the National Safety Council. We compare here railroad passenger trains, buses, and domestic scheduled air transport planes. Because passenger automobiles and taxis have such a high fatality rate that they will not even go on this chart, we have put them up here on a separate chart.

Using the railroad passenger train and going back again to 1957, you will notice that the rate is about 0.08 here, and the bus is 0.18, and the airplane is for this period 0.1 fatalities per 100 million passenger-miles.

In 1958, the train went up to 0.24, the bus to 0.18, and the aircraft up to 0.4.

In 1959, the passenger train was down about 0.03, buses 0.21, and the domestic scheduled air transport all the way up to 0.65.

The worst comparative year for aviation was 1960. Passenger trains, 0.18, buses about 0.12, and the domestic scheduled air transport planes, 1.0.

Comparatively, the years 1961, 1962, and 1963 show that it is nearly as safe, certainly in 1963, and perhaps safer, to go by air rather than surface.

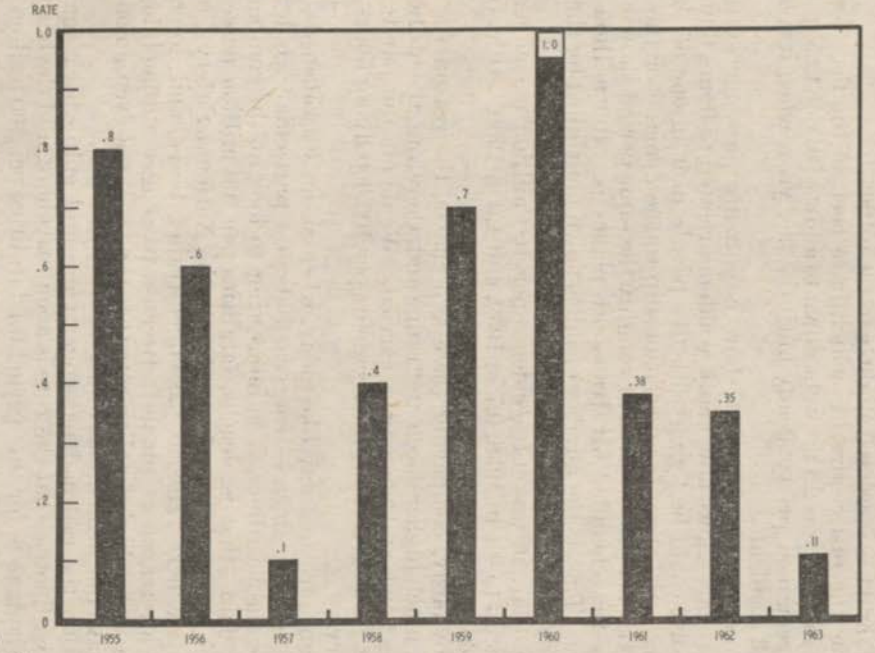
Mr. THOMAS. What brought that accident rate down so appreciably from 1959 and 1960 to 1963? In 1959 and 1960 it was terribly high. In 1963 it is comfortably low. What did that job?

PREPARED BY FSS
2/24/64

FEDERAL AVIATION AGENCY

DOMESTIC SCHEDULED AIR TRANSPORT PLANES

DOMESTIC SCHEDULED AIR TRANSPORT DEATH RATES PER 100,000,000 PASSENGER MILES



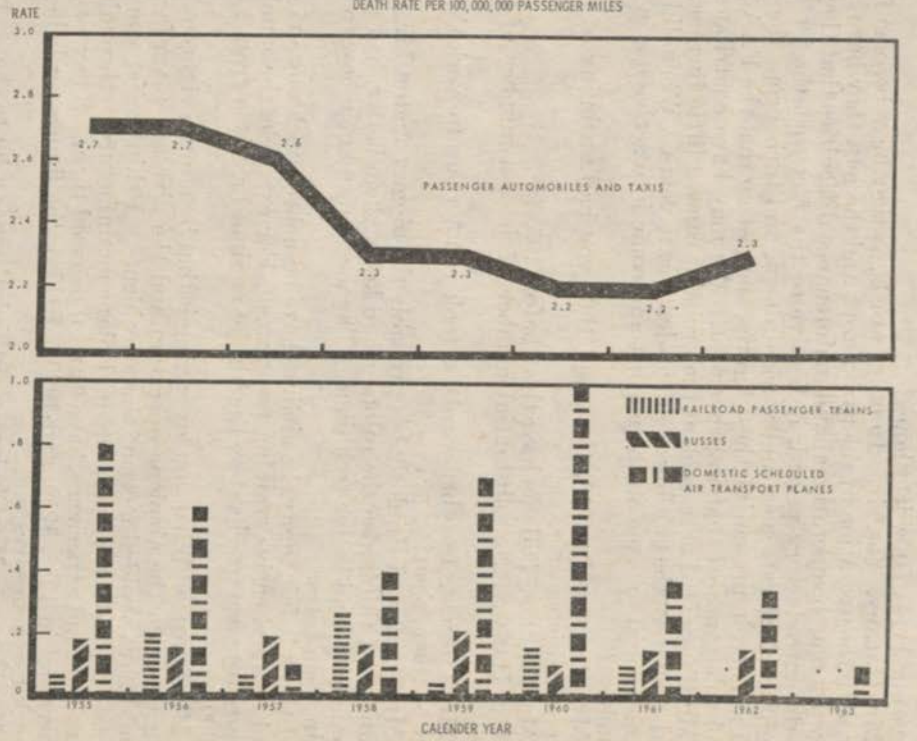
FOR OFFICIAL USE ONLY

SOURCE OF INFORMATION:
a. 1955 through 1962, "Accident Facts" published by the National Safety Council.
b. 1963, Flight Standards Service

FEDERAL AVIATION AGENCY

COMPARATIVE ACCIDENT DATA

DEATH RATE PER 100,000,000 PASSENGER MILES



*Not yet available

Mr. HALABY. I think a whole series of things happened in these years, Mr. Chairman. I think the most important thing is that there was a period of time in which the bugs and the operational difficulties were worked out and framed out by the pilots, the engineers, the mechanics, and the managers of the airlines. Remember, we are talking about the air carrier industry here.

Second, I believe——

Mr. THOMAS. 1959 and 1960 are the years the airlines began to use large numbers of new jet planes?

Mr. HALABY. Yes, sir. In other words, as they have become familiar with the operation of the turboprops and the jets, they have begun to work out the operational and maintenance difficulties that they had in the introductory period, indicative of the fact that the jet had a high accident rate here and worked down, and turboprops the same.

I am not, in presenting these figures, suggesting that the FAA is the probable cause of that improvement. We may have contributed.

Mr. THOMAS. Let us look at the probable cause a little further; 1959 and 1960 were the two big accident-death-rate years. When did these planes begin to come on the market and come into active use in large numbers?

Mr. HALABY. In 1958, 1959, and 1960 you had an influx of turboprops and jets.

Mr. THOMAS. Did you have them before 1958?

Mr. HALABY. No substantial number of jets; a number of turboprops.

Mr. THOMAS. In other words, it took you 3 years to work the bugs out of them, then?

Mr. HALABY. I think that is probably the biggest factor, Mr. Chairman, but I think also the pilots got to know them better, had greater confidence, and better technique. The mechanics knew how to maintain them better.

I think it fair to say the airlines have launched much more vigorous and comprehensive training programs. For example, the number of hours between overhaul on the big jet engines has risen from 1,000 to 4,600.

Mr. THOMAS. What you are saying is that by a more vigorous training program the airplane operators and the airplane manufacturers could have avoided most of these accidents. I think what you say is true. In 1963, the operators and plane manufacturers, through combined use and experience, have learned to avoid them. They went into operation in 1958, 1959, and 1960. I think the figures and the years speak for themselves.

Mr. HALABY. Mr. Chairman, I think there is a lot to that. I think we need to look also at each year in terms of the accidents. For example, the year 1963 was encouraging in that the number of fatalities was relatively low compared to other years, such as 1960 when there were 500 people killed in air carrier fatal accidents. In 1961, there were 312, and in 1963 there were approximately 280. But the number of accidents in 1963 was 16, and in 1961 it was 12.

We had thought the trend would be the other way; that there would be more fatalities per accident because of the bigger planes, but in 1963, fortunately, there were fewer fatalities than in 1961, and there were more accidents.

Mr. THOMAS. Then our theory is not accurate; is it? It was due to lack of training.

Mr. HALABY. I would take some credit for the FAA, and I think this committee is entitled to take some credit for appropriating for the jet specialists who inspect the jet crewmen, because that program started in 1961 and has continued in 1962 and 1963. It was initiated by my predecessor, and the men got their training on the big jets for which you appropriated and which we now have in our inventory.

These men are qualified. Each of the jet pilots have been given checks and proficiency tests ever since. I do not think that is anything but a secondary aspect, but I think it has paid off.

AIRCRAFT OVERHAUL STANDARDS

Mr . OSTERTAG. Mr. Administrator, this may or may not be apropos of the discussion here at the moment, but have you any criteria or standards with regard to the life of an aircraft that can be used in commercial service?

Mr. HALABY. Yes, sir. I shall ask Mr. Moore to answer that question. I have recently had him and his staff prepare an estimate of the time actually flown by various aircraft in the jet fleet. As I said earlier, we investigate incidents just about as vigorously as we do accidents. Our theory is that that will help us prevent more accidents.

We look at the Boeing fleet of 707/720, and we asked the operators—Eastern, Pan American, United, TWA, and American—the airplanes with the most flying time on them, and we found that at the time we requested this information in January, Pan American had one with 16,000 hours, TWA with 15,000 hours, and all the rest were lower in time.

With regard to the DC–8, United had one with 13,000 hours. With regard to the Convair 880–990, Delta had one with 10,000 hours.

We also made a special study of whether any structural problems—fatigue cracks, and the like—were developing. We have those data in depth, as you can see from this large folder.

I would like Mr. Moore now to state a more specific answer to your question of how we set up standards for the life of the airplane.

Mr. MOORE. Before the airplane is introduced into scheduled service, inspection times are developed to be used to inspect the various components of the aircraft periodically. For example, the powerplant on the aircraft will have to be inspected and completely torn down before 1,500 hours computed flight time. As you gain in experience and as you look at the various components periodically, the times may be increased.

The way the times are increased, of course, is that there must be a satisfactory service record and, using the powerplant as an example, you must not have had more than a certain number of premature removals of that powerplant before you can extend the overhaul time limit.

As the aircraft progresses along the line we have found that times between inspection of certain components may be increased, and others remain substantially the same. For example, one of the best and most reliable powerplants we have right now is what we call the JT–3 turbine powerplant which is used on the DC–8 and the 707's, and the

time between overhauls on that particular powerplant is up to 5,000 hours.

Mr. THOMAS. You mean you do not require a general overhaul under 5,000 hours?

Mr. MOORE. Not the basic powerplant itself. We may pull the various components off in between, but what we call the hot section, and so on, can go to 5,000 hours.

The interesting thing, sir, is that the reliability rate of that particular powerplant which I am using as an example is better now than it was when the times were down around 1,000 to 1,500 hours.

In answer to your question specifically, sir, we do have a program on each aircraft, and we do inspect the machines periodically as we go up the learning curve.

Mr. THOMAS. How do you account for the fact that it is a better powerplant at 5,000 than it was at 1,500 hours? What makes it a better powerplant? What makes it so much better that you can safely extend the period for complete overhaul from 1,500 to 5,000 hours?

Mr. MOORE. The learning curve, sir, of the people who operate it. The manufacturer will probably say we could have started off at 2,000, anyway, but the way we look at it, we want to be very certain that the powerplant is reliable, so we start it at the lower time.

It is partially learning and, as we go along the learning curve, we may decide to change a certain valve or circuit or pump which has proven to be more reliable and you replace it as you go along.

Mr. Halaby has mentioned the look we have taken at the aircraft that had considerable time on them. It is very apparent to us in analyzing these figures that our inspection process is a good one because we are not finding many things on the high-time aircraft that we do not find on the low-time aircraft.

Mr. OSTERTAG. Then, there is no across-the-board limitation on the life of an aircraft that would be permitted to be flown or used commercially or otherwise?

Mr. MOORE. That is essentially correct, sir. We have some DC–3's——

Mr. OSTERTAG. But you spoke about the powerplant particularly. You did not speak about the frame. Is it our understanding that the frame outlives the engine?

Mr. MOORE. Generally speaking, certain parts of the frame do. In other words, as you go through your inspection process, you do from time to time replace certain components. Generally speaking, the old DC–3 which you see sitting out on the line here at National Airport is not the one physically that was in being when it started. It will have replacements of various parts.

Mr. HALABY. Some of the aircraft have more added new parts than old parts. I suppose some DC–3's are up around 60,000 hours of flight.

Mr. THOMAS. Is the frame essentially the same frame, though?

Mr. HALABY. For example, about 18 months ago the Governor of the State of Montana was flying in an Air National Guard DC–3 in turbulent air up one of the mountain canyons. I believe it has been established and recorded that this wing spar attach angle, failed, the airplane fell, and he perished. That, of course, resulted in a teardown and inspection of all of these kinds of aircraft and their

attach angles, and replacement of some of them. In most cases there was no similar defect shown.

The President's jet, Air Force No. 1, has about 3,000 hours on it. Of course, it is very heavily, frequently and thoroughly inspected. I think it fair to say that the airlines are very scrupulous about these airplanes. If they even show up a hairline crack in any part of the structure, they go into it and fix it and replace it.

If we ever find that they have not, of course we take enforcement action.

The manufacturer is very proud of his product and very much concerned about warranties that he has made on it. He puts out service bulletins when any kind of defect shows up.

For example, on the five jet models, we have put out what we call airworthiness directives during the life of these five airplanes. We have put out about 100 airworthiness directives relating to the tail, the wing ribs, the spars, et cetera.

Mr. THOMAS. What is a spar?

Mr. HALABY. The main spar is like the main beam of a house. It is the long member, like the bone in the wing of a bird, that goes out.

Mr. THOMAS. It is part of the wing? It is the main support of the wing?

Mr. HALABY. Yes, sir; the main support.

AIRCRAFT FATALITIES

Mr. OSTERTAG. Just one more question on your aircraft fatalities. Have you any comparison, figures or percentages, of the total number of people who travel by air and the ratio of fatalities to that number?

Mr. HALABY. We can get you the data on those charts we showed you. Of course, the number using automobiles and taxis is very much greater than the number in airplanes. There is no way of knowing exactly, but we think there are some 10 million individuals who fly in an airplane per year, but many of them make repeated flights. So, we are not just sure how many people fly every year. It is a low number. It is certainly no more than 10 million people.

Of course, many more use buses, railroads, and trains. These are the death rates per 100 million passenger-miles. You might say the individual on the surface has more intersections and more opportunities for collision.

Mr. EVINS. These figures all relate to commercial transportation, surface and air, in the lower figure?

Mr. HALABY. Yes, sir; the upper one includes private passenger vehicles.

ARTICLE IN "THE PILOT" MAGAZINE

Mr. JONAS. Before you leave accidents and fatalities, Mr. Administrator, may I ask you to comment on a statement appearing in the Pilot, a magazine with which I am sure you are familiar, last May and June, published by the Aircraft Owners and Pilots Association. You read their analysis of your budget request last year?

Mr. HALABY. Yes, sir.

Mr. JONAS. It was a rather detailed analysis. I must confess when I read it, it shook me up considerably. If what they say is so, it does not appear that we are getting value received for the fantastic increases in money that have been provided.

May I ask you to comment on the following statement in this article:

> We have watched since 1950 the FAA appropriations for its basic functions of operations, facilities, equipment, research, and development grow at the average rate of 15 percent per year. We have watched the safety record continue its prior improvement through the first half of the decade of the 50's and then level out so that since that time no significant change is apparent. During this same period from 1950 on, the number of civil aircraft has increased at the rate of 3 percent per year, the number of airmen at 3½ percent per year, and the number of plane-miles in civil aviation at 7 percent per year. In the 1950's, the cost of basic FAA functions grew from $1,510 to $4,375 per civil aircraft registration, from $230 to $624 per pilot, and from 8 to 17 cents per aircraft-mile. We have watched the number of controllers quadruple from 4,000 to 17,000 in the last 10 years, and the FAA now employs 1 man for every 2 active civil aircraft.
>
> * * * * * * *
>
> We have watched larger sums of money justified to improve safety while the general aviation safety record has remained almost constant for 6 years and the air carrier rate, due to numbers too small for valid statistical purposes, has fluctuated in an inconclusive manner.

One of the charts would certainly bear out that the accident rate has leveled off or has been fairly constant during the last 6 years. Yet, the cost of operations, allocations of money for safety, has increased fantastically.

I would like your comment on the record about this statement.

Mr. HALABY. Yes, sir. I am very pleased to have the opportunity to comment, Mr. Jonas, because, as any public official knows, the facts catch up with the headlines long after and are often unnoticed.

First, I think we must consider the source of this statement, and I shall try to be as objective as I can be in describing it. As you said, it is the editor of a magazine subscribed to by a group of aircraft owners and pilots. The association is a corporation with several directors and officers who are not elected, and its membership, according to its own statement, is on the order of 80,000 or 90,000 members. They sell "memberships" to the pilots and provide them with low-cost insurance and free services. It is something like the AAA. It is not an association that votes or resolves. The average price of the airplanes of the members is in the range of $10,000 to $50,000, and the association is devoted to furthering the views of its membership.

They are one segment——

Mr. JONAS. May I interrupt to ask, would it be safe to say that the people who belong to this association are vitally interested in safety because their own lives and property are involved?

Mr. HALABY. Yes, they are very much interested in safety. They are also interested in taxes. They are also fearful of user charges and Federal control.

Mr. JONAS. I might add that this article is critical of the failure to impose user charges and critical of you for providing services they say the industry should provide. That would indicate that at least all of the article is not based on selfish motives. I might add that we all should be interested in taxes and saving money wherever possible.

Mr. HALABY. I did not say any of it was based on selfish motives.

Mr. JONAS. You did not use the word "selfish," but that was the implication.

Mr. HALABY. I said you and I must examine the source and the interest of these individuals in this association. That was the first point.

The second point, which they do not cover in the slightest, is how many accidents would there have been if there had been no such vigorous effort by FAA as this committee has supported over these years. This apparently is not as important as cutting FAA down to the strength the publisher desires.

Mr. JONAS. It would be impossible to do anything except speculate about that, would it not?

Mr. HALABY. If you wish to go into details on it, I believe we can show that as a result of the money this committee has appropriated, we have more airports in good shape, we have more towers directing traffic, we have more radars, we have more centers. But, you see, some people do not want any more Federal control of the airspace. They want less. They believe that in their individual judgment rests individual security, and they feel if you have maybe 100,000 people in the airspace from week to week, those individuals can be relied upon to discipline themselves. They feel it is not necessary to have a large system of control. Some even resent a control tower operator. This is a small minority of people.

Mr. JONAS. May I interrupt again. Forgive me for interrupting your trend of thought.

That is fantastic to me. It is inconceivable that the thousands of people flying up in the air would be critical of the cost of safety measures for their own protection, if the measures are actually necessary or helpful. They disclaim any such motivation as you have indicated in this article. They say they are more interested in safety than almost anybody else because they are flying these planes. They say you are wasting money.

Mr. HALABY. On that, I think we could have a very legitimate debate with these gentlemen.

By the way, we do debate at many meetings across the country, because I think it is honest to say, Mr. Jonas, the general aviation pilots get more out of the system and pays less in for the service than any other group. I would like to show you the statistics on this matter. I think you will find in the association's editorial policy a feeling against big Government, against controls, against taxes, but for Federal services.

CLOSING OF FLIGHT SERVICE STATIONS

Mr. THOMAS. Will you let me interject one point here, and then you continue your discussion, because it is good.

I notice the Administrator is about to close down, or whatever you call it, about 40 small flight stations. How does this fit into the discussion that you and Mr. Jonas are having now? Is anybody complaining about that?

Mr. HALABY. I think you will find, Mr. Jonas, that an anti-FAA budget statement, which was some 40 pages long, was circulated last year to every Member of Congress prior to the authors ever having seen the FAA budget, because under the rules of this committee the budget is not published until later. So, they were commenting on a budget they had not seen except in the President's large budget book, and in that blast they proposed to eliminate the funding of some $11 or $12 million, to modernize and equip these flight service stations. Now that we have announced the consolidation of 42 stations out of

approximately 300, we have had representations from these same gentlemen, this same association, that we are being unfair, arbitrary, and not pursuing safety in cutting down these stations to which they have become accustomed and familiar and, I might say, quite possessive.

RADIO CONTACTS WITH FLIGHT SERVICE STATIONS

Mr. JONAS. They comment in here upon an order that you issued requiring every plane operating close to these stations to use its facilities, irrespective of whether they were needed or not. I do not remember exactly what the recommendation was about these service stations, but here is what they say:

> In a more coercive vein, the FAA adopted a rule requiring pilots within 5 miles of a station to use its facilities if the aircraft was equipped to do so. Thus, much of the recent increase in the activity of flight service stations results from an administrative fiat to make work rather than a demand from pilots for more service. And much of the increase over the years results from pure promotion.

Mr. HALABY. I would regard that as a kind of political attack, Mr. Jonas. Maybe I should let a technical man rather than a political appointee answer that. Mr. David Thomas, I think, since it came up from his career service who believes that this would enhance safety although it might annoy a few individual preferences, could answer it better than I.

Mr. JONAS. I shall be glad for him to do that. Before we get to that, I would say this article is complimentary of Mr. Halaby. They were gratified at many of the things you have done. I would say many of its references to you were complimentary. But they did not hesitate to criticize some of the programs.

I will get into the medical one, which we have been rather critical of, also.

Mr. HALABY. Mr. Jonas, I appreciate your quoting from the article. There are some compliments in there. I told the man who is in charge of this association that it was sort of like having a warm pat on the back while your right arm was being severed. It was a kind of strange compliment that you get from "friends." You cannot have a man being complimented for the work he is doing for safety and economy in aviation and then propose a 36-percent cut arbitrarily in the budget that the proposer has never seen, and be a very strong and faithful supporter of him.

Mr. JONAS. I would not say it was undetailed. It is not a blanket cut that they recommended. They pinpoint their suggested cuts. They document them. So far as I am concerned, I was very pleased to get the material. I think you should have been, too——

Mr. HALABY. Yes, sir.

Mr. JONAS (continuing). Because I do not know of anybody who is a superman in this field. There are bound to be some questions and differences of opinion. I would thing the views of the people who fly these planes, on the question of safety and flight standards and all of these other technical questions, certainly would be important.

They even say that somebody put in a director of flight standards who was not a certified pilot. They did not say you did that. I do not even know who it was. That and this service station business were

about the only specific criticisms of what I would say would be policy. The others were of a technical nature.

Mr. HALABY. I would appreciate it, Mr. Jonas, if you would permit me to put my reply to their article before you at a suitable time. Secondly, I should like to make two points, and then I see Mr. Thomas is very eager to make his point about flight service stations.

Mr. THOMAS. We put this in its entirey in the record last year, and we discussed it at some length, but it is very important and I do not think it ought to be brushed under the table. I think we ought to spend as much time as everybody wants to take to go into it.

I personally am anxious to hear Mr. Thomas' explanation to Mr. Jonas' criticism on featherbedding as far as the flight service stations are concerned. When a man gets up in the air, I do not care who he is, I do not think he can be foolish enough to want to break his own neck or to do anything that will endanger his own safety. As far as these general criticisms are concerned, we have considered that the group generally wanted less regulation, but why they want it, I do not know. I am not clear on that.

The discussion between you and Mr. Jonas and Mr. Thomas ought to continue at some length and some detail.

Excuse me for interrupting. Go ahead.

NUMBER OF PERSONNEL VERSUS NUMBER OF AIRCRAFT

Mr. JONAS. Before Mr. Thomas discusses this, are they correct in their statement which I first read about the growth of the Agency? Have you now one employee for every two civilian aircraft flying? Is that a correct statement?

Mr. THOMAS. 86,000 plus 2,000. That is 88,000. He has about 46,000 employees. That is just about it.

Mr. HALABY. It is terribly important here for the committee to understand the author of this article is talking only about his part of the airways system. He is talking about the small, personal plane owner and his problems. He has omitted to consider the military, of which there have been as high as 30,000 and there are now around 23,000 aircraft. So, he omits those. He omits the airliners. In fact, if the airliners could be put in another place, he would prefer it. So, he omits to consider those.

The number of aircraft is not the key thing. It is the number of aircraft operations that is important. That is on the order of 15 million. So, if you want to make a more legitimate comparison than the one he has made—by the way, he used to clobber General Quesada, day after day, with even more venomous attacks on the same subject, about his budget and his activities—that would be a good comparison, 46,000 personnel versus 15 million operations might make some sense.

But to answer your question, sir, the number is right.

I think it also important to note what this man is proposing be done is after 5 years being done on a precise, careful, responsible basis. That, to me, is the best answer to this kind of criticism, some of it sincere, some of it quite biased. And as economy measures come, he doesn't like them insofar as they affect him.

TRENDS IN PERSONNEL AND APPROPRIATIONS

Mr. JONAS. I would make only one other comment, and then I will invite Mr. Thomas to go ahead. What he seemed to be doing, whoever prepared this article, was recommending, not that you abolish safety, not that you abolish standards, not that you abolish these activities, but that you discontinue empire building; that you cut back to a level of a year or so ago, on the theory that the Agency had a good, efficient, effective operation then and it is not necessary to keep expanding it.

Mr. HALABY. Yes, sir.

INCREASE IN APPROPRIATIONS AND FORECAST FOR FUTURE

If I could show you the last two charts I had intended presenting here, the personnel roster went down to its bottom in 1954. Then it was built up from a total of 15 thousand personnel in 1954 to a total in January 1961 of 40,000 personnel. From January 1961 to a peak this past summer at today's level of approximately 46,500.

I am sorry it took me 3 years to get this much control of the personnel expansion, which in the fiscal year 1961 was more in 1 year than the 3 years of 1962, 1963, and 1964.

Here is the way the trajectory looks on the money, Mr. Jonas. The economy trough of 1954, where the total budget of the Agency was approximately $115 million. It expanded to 1961 to $690 million, and on to a peak of $813 million, including the supersonic transport, $60 million. Now, sir it is going down by 754 positions and $15 million.

I know that is in the direction you want, and I know it is in the direction that this association wants.

Mr. JONAS. Is it down because you recommended lower figures, or is it down because the Bureau of the Budget reduced your request?

Mr. HALABY. It is down, sir, because the President of the United States sent a budget up here that is lower——

Mr. JONAS. I know, but how much did you ask the Budget Bureau for?

Mr. HALABY. I can give you that figure in just a moment. The fact is that we have been able to do this. Whether the President, who is responsible, or the Budget Bureau or I get credit for it is not the most important thing. The fact is that we are down, and we are providing for safety. We believe that we have done quite a job.

Mr. JONAS. My point is, how can you go down in 1965 and take care of safety when you said you could not go down when these people recommended it last year and take care of safety?

Mr. HALABY. We were going down last year.

Mr. JONAS. No; you were not.

Mr. HALABY. Yes, sir. We closed 8 out of 29 air route traffic control centers.

Mr. JONAS. You were not going down in money.

Mr. HALABY. Sir, in people——

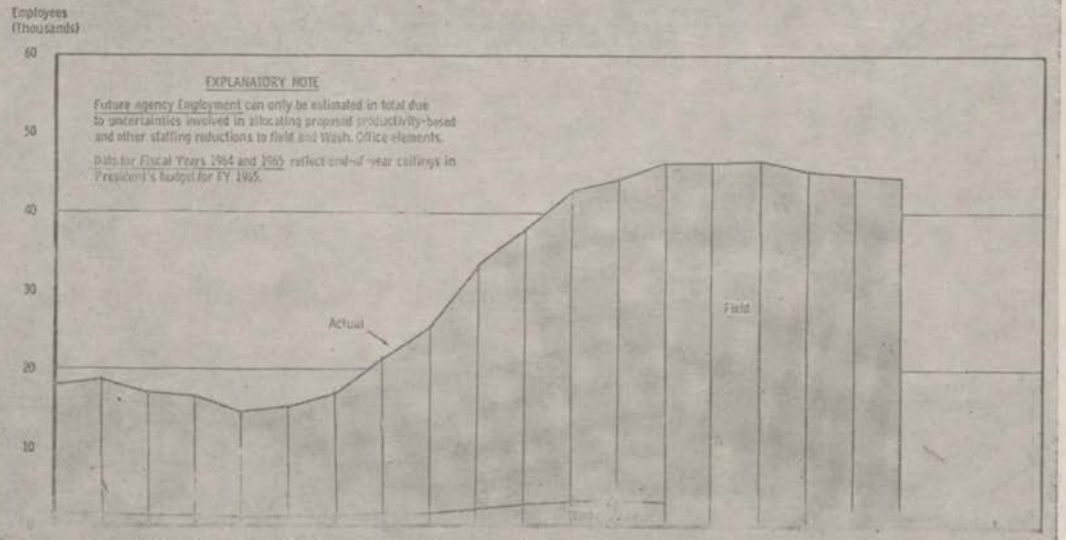
Mr. JONAS. Or in people.

Mr. HALABY. As I said, sir, in August for the first time in the history of the Agency we had fewer employees one month than the previous month. We now have a smaller budget after 5 years than the previous

Federal Aviation Agency

EMPLOYMENT HISTORY AND FORECAST

FY 1950-1970



[illegible]	[illegible]	[illegible]	17,066	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	44,482	46,432	46,492	46,538	[illegible]	[illegible]	[illegible]		
[illegible]	[illegible]	[illegible]	15,550	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	40,922	42,995	N.A.	N.A.	[illegible]	[illegible]	[illegible]		
[illegible]	[illegible]	1,356	1,516	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3,560	3,437	N.A.	N.A.	[illegible]	[illegible]	[illegible]		

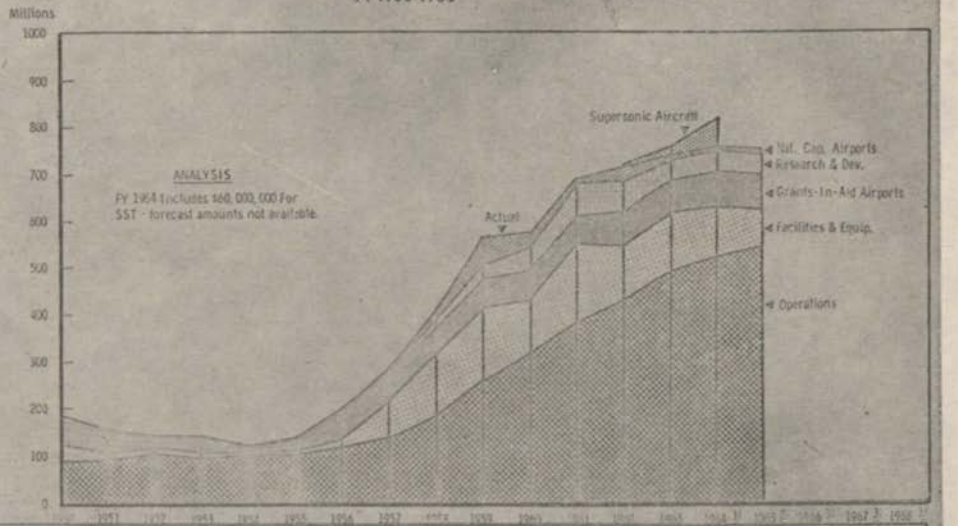
Forecast not available at this time

Federal Aviation Agency

APPROPRIATIONS HISTORY & FORECAST

New Obligational Authority

FY 1950-1968



	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
TOTAL	167.1	154.9	138.9	139.4	115.9	131.4	197.3	278.1	[illegible]	515.0	573.5	[illegible]	728.9	456.0	515.4	691.3	760.9	843.0	856.5
SUPERSONIC AIRCRAFT													11.0	20.0	60.0				
NAT. CAP. AIRPORTS	5.8	7.8	1.7	1.8	2.3	2.3	5.4	7.7	15.4	33.0	24.9	31.8	29.5	11.9	10.1	10.5	10.5	10.5	17.5
RESEARCH & DEV.	8.5	[illegible]	4.5	2.9	1.8	1.8	1.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	35.0	40.0	42.0	42.5	42.5	42.5
GRANTS-IN-AID AIRPORTS	39.8	[illegible]	3.3	10.1	[illegible]	22.1	62.5	80.[illegible]	75.[illegible]	65.0	62.6	22.1	75.0	75.0	75.0	75.0	75.0	75.0	75.[illegible]
FACILITIES & EQUIP.	[illegible]	0	[illegible]	[illegible]	.0	5.6	10.0	75.[illegible]	[illegible]	175.5	118.2	[illegible]	123.0	80.0	100.3	75.0	131.5	112.6	116.[illegible]
OPERATIONS	[illegible]	0	[illegible]	[illegible]	.8	10.2	117.2	136.[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	316.5	288.1	[illegible]	508.0	576.0	594.0	580.[illegible]

[illegible]

1098

budget. We are closing 8 out of 29 air route traffic control centers. The reactions to that are still with us. We are closing 42 flight service stations. The numbers of letters and the numbers of representations to me are very numerous.

I guess, sir, I have to say that economy is our aim and our practice, and the fact is that when it affects some particular interest, that interest comes back and says, "OK, economize on them but not us."

FUNDS REQUESTED OF BUDGET BUREAU

Mr. JONAS. How much did you ask the Budget Bureau for 1965?

Mr. HALABY. For the fiscal 1965 program, we asked $821 million.

Mr. JONAS. So, this cutback did not originate in the Agency. You intended to continue to expand, but you were restricted by the Budget Bureau and by the President. Is that right?

Mr. HALABY. I would put it this way: In the course of the budget hearings and the President's approval, the President sent up a budget of this nature, and we are going to work with it and live with it. We are going to save what we can.

Mr. JONAS. Do you think you can provide all the safety that is necessary with this reduced budget?

Mr. HALABY. Yes, sir.

Mr. JONAS. Why did you ask for more than $800 million, then?

Mr. HALABY. I think what goes on within the executive branch in preparing the budget is important, but I think what comes out of the preparation is the most important thing.

Mr. JONAS. Of course, you know we have the right in here to recommend appropriations higher than the budget figures.

Mr. HALABY. Yes, sir.

Mr. JONAS. We want to know what is absolutely necessary to take care of safety requirements and how little those things can be accomplished with, and why you asked for so much more money than you finally got into the budget. Do you think you are sacrificing safety?

Mr. HALABY. Mr. Jonas, the request for facilities and equipment and for research and development is the margin between the request and the allowance, and that is simply a question of how rapidly we move toward the modern system. They disallowed $38 million in facilities and $14 million in R. & D. That is simply a deferral of putting in the automation and modernization equipment over into another year. We believe we can live with that and get the job done. Mr. Jonas, could I go off the record just a second and then come back on?

Mr. JONAS. Yes.

(Off the record.)

COMMUNICATION WITH FLIGHT SERVICE STATIONS

Mr. DAVID THOMAS. Mr. Chairman and Mr. Jonas, the question was asked as to why we have a regulation that requires a communication with one of the flight service stations within 5 miles of the airport of landing or destination. It was indicated that this apparently is a make-work program.

As you probably know, we run 15 to 20 midair collisions a year, and typically they are within the traffic pattern of the airport without a

control tower or without any communications. In fact, we had one such collision in North Carolina, at Hickory, between an air carrier and one of a furniture company's aircraft, both of which had communications equipment and we had a communications station on the ground, but neither of the aircraft was in communication there. So, we had all the elements of advising each other of the traffic, and they were not so advised, and there was a collision and some fatalities. This was some 3 or 4 years ago.

In an examination of this accident, it became quite apparent that if the Federal Government did have such facilities available, we should use them.

We published, I think, the mildest sort of regulation, and that is, if one does have a two-way radio, not that he must have it, but if he in fact does have it, simply use it in a situation where radio is available to get information.

This does not require additional people on the part of the Government. It does not require any additional equipment on the part of the airplane. But it does require commonsense use of facilities that are now available. The regulation has, we think, been quite effective.

I would like to point out that the flight service stations have provided a great deal of service to the general aviation public. In fact, during the calendar year 1963, we provided flight assistance to nearly 1,200 aircraft, such things as: 104 were caught on top of clouds in weather and could not get down without some assistance. Ninety-two of them had lost navigational assistance, and here we gave them direction finding or sent out another aircraft to steer them in. Around 900 were lost. This sort of thing.

Contrary to the regulation adding either personnel or workload, we think we simply used the workload that is available, and we will still continue to provide assistance services in the consolidated method even after we have closed out some of the other stations.

VFR FLIGHT PLANS

Mr. JONAS. They said they had seen an increase in the number of VFR flight plans filed. Do you require one to be filed?

Mr. DAVID THOMAS. No, sir. That is purely voluntary. If you are flying over the swamps or in desolate country, we recommend it, but it is voluntary.

Mr. JONAS. They say the FAA has had its flight service stations promote and provide more services to general aviation pilots who do not normally participate in the IFR traffic control system. They say we have seen the number of VFR flight plans filed soar, a sevenfold increase in 8 years.

That is where they went on to state the quotation I read a while ago.

Mr. DAVID THOMAS. Yes, sir; there has been an increase, but it is a voluntary program to file a flight plan, to obtain weather and navigation information before you go. The principal reason for filing a flight plan is that it does not help to navigate, but in case the aircraft does not show up, it alerts research and rescue facilities.

I would say one of the saddest jobs that I have, which happens frequently, is to get a call from someone asking us to initiate a search

for someone who has been missing 3 or 4 days or a week, and no one is really sure where they were going, except the family just missed them and they did not show up.

If a flight plan is filed and a person does not show up, search and rescue is initiated immediately, and in some cases it saves lives if we can get to them in time.

Mr. JONAS. Thank you.

Mr. HALABY. Would it please the committee to await lunch to look at this little exhibit?

Mr. EVINS. I think we might want to have it just after lunch when we would have a little more time.

Can we say, Mr. Thomas, it looks as though some of the critics of the program—wanting service stations and not wanting them removed, and wanting all the protection and all the safety, yet wanting it at little or no cost—are in the situation of wanting their cake and eating it, too? Would that be your observation?

Mr. DAVID THOMAS. Yes, sir.

MEDICAL STANDARDS

Mr. BOLAND. I would be interested in some comment, also, on their opposition to your medical standards. I do not know how severe their opposition is. They have some quarrel with some of the standards that have been laid down by FAA. This, of course, would be engendered by the feeling of individual pilots and aircraft owners who are affected by these rulings. I would think maybe you could give us a little briefing on that after lunch. Is your opposition considerable on this score?

Mr. HALABY. It is considerable and ceaseless. The basis of it is that they feel they have a direct, intimate relationship with the family physician, and that our requirement that every 2 years the private pilot must go to a physician designated and given some training and a constant stream of information by the FAA about aviation medicine, is an invasion of their privacy and an unnecessary restriction.

This requirement has been rigorously carried forward. We do not know how many lives it has saved, but we believe it to be sound. No individual, whether a pilot or not, likes to be forced to have a physical examination, and in particular he dislikes having it with a strange physician. I guess, as a personal feeling, I have the same feeling. I would rather have my own personal physician examine me than a stranger. But it takes only a medical degree and a nurse who can type and a reasonable record with the local medical association to become a designated medical examiner.

For example, my physician obtained a designation several years ago, and although he does not make any money on these physical examinations, he does an excellent job at his clinic. Maybe Dr. White could carry on from there.

Mr. BOLAND. I think that probably satisfies my question. They just do not like a rule requiring them to go to a designated physician. They would rather go to their own. Their own probably would be more lenient than a strange physician. This is human nature, you know. If you want your family doctor to clear you, he may clear you because of family association and friendship, whereas a strange physician might not.

Mr. HALABY. This is particularly so, Mr. Boland, with respect to psychotic disorders and mental illness.

Mr. BOLAND. And heart conditions.

Mr. HALABY. And heart conditions.

Mr. THOMAS. Gentlemen, let us recess and return at 1:05.

AFTERNOON SESSION

Mr. THOMAS. The committee will please come to order. Mr. Jonas, will you continue your discussion? This is what the committee needs. You are making a fine record.

Go ahead and complete it.

POSITIVE CONTROL OF AIRCRAFT

Mr. JONAS. I will ask Mr. Halaby whether he still feels as he felt in 1962 when he responded to a question asked by Chairman Thomas, that in effect he was aiming toward full, positive control of all aircraft?

Mr. HALABY. I very much appreciate the opportunity to answer that. I would refer back to the full context of the colloquy between the chairman and myself at that time. This sentence has been jerked out of context for the purpose of misrepresenting my view.

The context of that testimony, and the chairman was asking the questions, was that in the upper air congested air space were we working toward full, positive control.

The answer, both as to intent and substance, was "Yes." The fact is that during the last 3 years we have been able, through the appropriations of this committee, to buy the equipment and train the men and improve the facilities so that all traffic above 24,000 feet is under constant positive radar control.

We have a plan to bring that level of positive control down to 18,000 feet where high speeds make "see-and-be-seen" a precarious rule of safety.

As the writer of the article has been told in numerous public meetings, we never will be capable of, nor do we intend to, positively control each and every flight in the American air space. This is just physically impossible short of perhaps trebling our appropriations and personnel.

Our system calls for an area of uncontrolled VFR traffic, at low altitude in the uncongested areas. It calls for certain traffic in certain areas which have more congestion to be controlled, and then it calls for instrument flight rule traffic under positive control, so that what we are trying to do is to have a safe, sane, and realistic mixture of uncontrolled, partially controlled, and positively controlled traffic.

Mr. JONAS. Let me read the queston into the record right here:

Chairman THOMAS. Does it add up to this: That you are working toward and hope to eventually control every plane from the minute it takes off in continental United States until it sets down, using all the equipment that is necessary? Is that the ultimate control in safety? Is that what you are working toward?

Mr. HALABY. That is almost exactly right, Mr. Chairman. There are a few categories of flight that we do not need to control, and I would hope never try to control.

Then you enumerated—the duster dusting the field, the rancher going back and forth from his ranch to a small country airport. [Reading:]

> On the other hand, if the rancher wanted to come into Phoenix in the midst of air carrier and military traffic he would have to enter the system and subject himself to control.

I would take it from that question and answer that you were aiming toward ultimate positive control of all aircraft other than those who are flying around presumably on a man's own ranch or dusting a field. Those are the only exceptions you listed.

They are very quick to point out that you have not made such statements in public but that you made them to this committee and were careful never to make such statements in the presence of airplane flyers because they know that would be impossible without, as you say, spending far more money than is contemplated in this budget.

Mr. HALABY. Well, sir, I respect deeply the judgment of this committee. I never once thought that anything I said here was not a matter of public record. I would certainly not ever say one thing here and say another thing in another public record.

What I think this publication is attempting to do is to define the word "control" in a way that its members find both unpopular and unpalatable.

You see, one of my difficulties, Mr. Jonas, and perhaps the reason for some of the heat of my reply this morning, is that I come from this private plane area. I am not an airline man, and except during the war I was not a military man. My flying, which has been over the last 30 years, except for the military phase, has been in small private planes. I feel a kinship with these pilots, but having the task of providing for the airliner, the military and the private pilots and the people on the ground, I have to look at it in terms of what is in the total public interest rather than in the interest of this private pilot, so when they tell me that I am trying to obtain and enforce positive control over every flight that is not what I think, is not what I intend, is not what the public record is, and what they have done is to just take a series of questions between the chairman and myself and put them out of context and suggest that we want that kind of huge dictatorial system. We don't.

Mr. JONAS. May the subcommittee now understand from what you say today that that is not your objective?

Mr. HALABY. It is not.

Mr. JONAS. It is not your aim and it is not toward that eventual complete control that you are working.

Mr. HALABY. And it never has been.

Mr. JONAS. The question as it was asked and the response would be calculated to leave such an inference, would it not?

Mr. HALABY. I think what the understanding turns on is the word "control."

We hope within another 3 or 4 years to have a system for safe and efficient utilization of the airspace that will permit uncontrolled VFR flying where it is safe and sane, controlled VFR and then positive-control IFR.

Some would say that all flights were under control, you see. However, what I think they are attempting to show is that we want a controller controlling every flight of every aircraft in the continental United States, which is the case in Russia, by the way. That is the way the Soviet Union does it. Every flight is dispatched by a controller. We call him a controller and they call him a dispatcher. No Soviet flight may take off, no flight of any kind, without his control. I think this is part of the technique of suggesting that the Government wants to take over every individual action so as to promote restriction on the Government's legitimate action in the public interest as it impinges upon a particular individual or group.

The claim is an extravagant one. It misinterprets our public plan, and it tends to place the dialog in a different context from the one which was here in the committee.

MEDICAL PROGRAM

Mr. JONAS. One other comment, and that is the one to which I alluded this morning in connection with the criticism of your medical research program. They do not give any specifics other than to say you are building a medical research empire in the absence of any evidence that medical standards are deficient or that the accident record can be improved by tightening these standards or changing personnel by whom candidates for medical certificates are examined.

I would like to give you an opportunity to respond to that if you care to.

Mr. HALABY. Yes, sir. First, I believe it is fair to say that every private pilot who can afford to fly and who lives to fly feels that he is healthy, sane, and sensible, and that he can trust himself and others can trust him in the air. Most of them have their own private family medical man and they trust him to tell them whether or not they are physically fit, and they feel that in a free world that is enough, and they should not be forced to have a medical examination every 2 years for a private pilot's license and every year for a commercial pilot's license and every 6 months for an air transport pilot's license.

Second, they feel they should not be forced to get this medical certificate from a doctor designated by the Federal Aviation Agency and who might not be their own private physician. They feel that this designation is an invasion of their freedom of choice and their relationship to the family doctor.

I feel often the way they do. I do not like to go take that annual physical. They might find something wrong with me. It might deprive me of the pleasure and profession of flying.

However, my personal physician has obtained a designation. We have some 5,800 American physicians who, having a degree from a medical school, having no record of improper practice before the local medical association, and having agreed to take a kind of refresher course in the peculiar aspects of aviation medicine, have been designated. My doctor has so been designated. In fact, just a few weeks ago when I took my annual physical he was going the next day on his own money at his own cost from practice for 3 days to learn about developments in aviation medicine since he had been designated. He is a very conscientious, thorough man. He is one of the principal

partners in a clinic of high reputation. He wanted to find out what it is that fliers do in being exposed to hazards and exposing others to hazards which were peculiar, what we have learned in the medical research program, and so forth.

Our men came from Oklahoma City, Georgetown, and so on, and presented the developments in aviation medicine.

When a man takes an antihistamine to prevent or ameliorate a respiratory problem he has and he drives 50 miles he is exposed to one set of conditions.

When he takes off and flies over an 8,000-foot mountain range and bumpy air he is exposed to a different set of physical conditions.

Some of the research that Dr. White now heads up is devoted to finding out the effects of antihistamines, of sedatives, various tranquilizers on the human body in flight, so these designated doctors are not aviation medical specialists but they do know what to look for.

We are finding that they are better and better and better able to do a job for an individual. Of course, it still does not make him happy, because he has to take a physical, pay for it, and often it is not his personal, long-time family physician.

Mr. JONAS. That is all I have, Mr. Chairman.

Mr. THOMAS. Mr. Halaby, had you finished your statement?

Mr. HALABY. I had just about finished these charts, Mr. Chairman.

Mr. THOMAS. You go ahead.

Mr. HALABY. I was hopeful that I could just present one more here and then the committee would permit us about 10 minutes over these little displays in the outer office. Naturally we will do what the committee prefers.

Mr. THOMAS. Go ahead and do this in your own way.

RECENT FAA ACCOMPLISHMENTS

Mr. HALABY. We would like to offer to the committee some of the things we have done with the money you have given us over the last 3 years. We have a document, which after you have had a chance to skim, if you wish to put in the record we would be very pleased. We feel accountable to this committee. We feel we are acting within the scope of what it has authorized and appropriated, and these show simply a number of the things which have been done in the 3 years of this particular administration of the program.

I do not mean to go into these in detail now, but if the committee wishes to put that in the record it does give a background of some of the things which have been done.

(The material referred to follows:)

FAA MILESTONES 1961–63

INTRODUCTION

In a very large and a very busy organization it is easy to forget what has been accomplished in the past because of the constant stream of pressing new demands. It is clear that no organization in government or out has more demands on it, or more compelling demands on it, than the Federal Aviation Agency. So it is likely that results of the Agency's work in the last 3 years are already largely forgotten by even the men and women who achieved the results. In the hope, and expectation, that a partial list of some of the Agency's accomplishments in the last 3 years will be a source of inspiration and confidence to you for the big task ahead, this summary has been prepared.

Project Horizon report, prepared by a high-level task force, was issued in May 1961. It defined the Nation's long-range aviation goals and included recommendations to review our objectives in international aviation and to begin immediately a study to develop the supersonic transport.

The report of the Project Beacon task force in October 1961 made recommendations for modernizing the air traffic control system for evolutionary construction of a system capable of handling demands of the supersonic era.

The System Design Team formed late in 1961 drew up a comprehensive, overall design plan for the national airspace to implement recommendations in the Project Beacon report issued June 1962. (Specific projects are listed separately.)

The FAA launched a reorganization program in July 1961 to delegate broader operational responsibilities to the regional offices—to place Agency people with authority and responsibility close to the point of service. Under the decentralization concept, authority has been concentrated in regional directors, and the Washington headquarters staff has been reduced by some 600 positions.

Policymaking, planning, and programing has been centralized in Washington, D.C. Three top-level management positions were established—(1) Associate Adiministrator for Administration, (2) Associate Administrator for Development, (3) Associate Administrator for Programs—to assist the Administrator and Deputy Administrator in the executive direction and coordination of the various Washington offices and services.

An independent Audit Division was established in the Office of Management Services to assure the soundness of the financial, accounting, and management controls of the Agency.

The Office of Appraisal was established to assure the Administrator of the adequacy of all Agency operations.

To improve internal communications, a management information center, an alert bulletin, and a communications duty watch officer system were established.

Agency Order 74 was issued on November 7, 1961, which directed increased attention to the need for maximum efficiency and economy in Agency activities, and intensified requirements for realistic reporting and follow up on actions to achieve the desired improvements.

New regional offices were established, including a southern region to take over operational responsibility for a large section of the southwest area, and an office in London to handle FAA affairs in Europe-Africa and the Middle East.

Related functions were consolidated in the spring of 1962 under the following new offices: Aircraft Development Service, Installation and Materiel Service, and Systems Maintenance Service. Services related to each other with respect to the development of a national aviation system were placed under appropriate assistant administrators for a closer coordination of projects aimed at a mutual goal.

The added importance given to general aviation was centralized in the newly created Office of General Aviation Affairs placed under an Assistant Administrator. To better serve general aviation needs, three major purposes have been established—aviation education, liaison with private aviation organizations, and congressional liaison.

New emphasis was given to the airport program with the establishment of airports service as a separate department under a service director.

A program to reduce the number of air traffic control centers through a consolidation program represents a potential saving of more than $116 million in the next 16 years. Proposed by the previous Administrator, the program was postponed and carefully reevaluated by the present Administrator before it was implemented.

The FAA and the Department of Defense have integrated operational communications facilities, a program which represents an annual saving of $6.3 million.

The supersonic transport program was established and placed under a Deputy Administrator to bring supersonic flight to the Nation's air travelers in the 1970's. Discussed for many years and explored by the previous administration, the program took form when $11 million was appropriated in fiscal year 1962 and $20 million in fiscal 1963 to finance preliminary feasibility studies. Three airframe and three engine manufacturing companies submitted initial design proposals to FAA January 15, 1964. The proposals are being evaluated by a team of Government experts and by the airlines. In addition to FAA experts, the 210-member Government group will include personnel from NASA, CAB, the Air Force, the Navy, and the Department of Commerce.

By the end of 1963, the FAA had received delivery reservations, accompanied by partial royalty payments, from seven airlines.

The FAA called for limited design competition to produce detailed specifications and cost data for a small, practical short-haul transport to replace the aging DC–3 which still dominates the short-haul market in this country and abroad. A number of competitive aircraft designs are to be ready for evaluation during 1964.

FAA engaged in 14 joint military projects in 1963 to develop new kinds of V/STOL aircraft. In one project, prototypes offered by three different manufacturers competing in the Army's light observation helicopter program underwent initial flight tests; FAA's schedule calls for completing certification of these aircraft for civil use by the end of 1964.

Project Searchlight, started earlier and completed in 1961, indicated that with vastly increased engineering efficiency there was not as large a need for additional maintenance manpower as previously thought.

Project Pipeline, started earlier and completed in 1961, thoroughly evaluated the Agency's supply system, and tested the introduction of advanced operation research in FAA administrative management problem solving.

Project Tightrope, a task force appointed by the Administrator to review FAA's rulemaking and enforcement procedures, completed its report in November 1961. As a result, an Agency Regulatory Council was established to serve as a central rulemaking forum; a new policy was established to permit trial-type hearings using independent regional hearing officers before revoking airmen's certificates.

A rules codification program resulted in rewriting existing regulations so airmen can use and understand them more easily.

FAA dockets on proposed safety rules have been opened during the comment period so interested parties can learn what comments have been submitted before the deadline for comments have closed.

A program was established to continuously update technical instructions for maintenance technicians who maintain the airways system. The purpose is to improve performance and reduce the chance for error.

Project Score, initiated in 1962, involved the study of the use of manpower in air traffic service. Preliminary information indicates the development of techniques that will permit facility chiefs to achieve increased efficiency in the utilization of manpower, and confirmation of the methods used by the Agency to attain continuing increases in manpower productivity.

An intensive Agency-wide economy campaign conducted in mid-1962 stimulated more than 5,700 suggestions for improving organization structure, procedures, and operations.

OPERATIONAL ACCOMPLISHMENTS

A high-speed aircraft maintenance communication system went into operation in March 1962. It permits summarized information concerning the mechanical reliability of the air carrier fleet to be returned to all carriers within 24 hours after the information is received. Teletype links have been established in the five regional offices in the contiguous United States and in eight selected air carrier district offices to make information regarding malfunctions and significant incidents quickly available to all air carriers.

New emphasis has been placed on the role of the aviation mechanic by hangar sessions initiated by the Administrator and by the introduction of an FAA annual awards program for both general aviation and airlines mechanics who make the most outstanding contribution to air safety.

Certification and airworthiness regulations were revised for route air carriers engaging in oversea and foreign air transportation and transportation within Hawaii and Alaska. Blue ribbon systems-worthiness inspections were made of domestic and American-flag air carriers, surveillance of supplemental air carriers was increased, and a financial audit for supplemental air carriers was introduced.

The FAA now flight checks navigational aids of all U.S. Government-operated navigation systems on a worldwide basis. While Army and Navy aids were already being flight checked by FAA before the present administration, some 1,600 Air Force aids have been added increasing the FAA workload from some 50,000 to 70,000 flight check hours annually. In addition to being a further step toward a common civil-military system, the process promotes a greater economy and efficiency. Part of the previous administration's friendship plan, this phase began in September 1962.

INTERNATIONAL ACTIVITIES

FAA's international activities were strengthened by the establishment of the Office of International Aviation Affairs and by delegating operations responsibilities to the regions.

Symbolic of the FAA's desire to assist the newly developing nations, an International Field Office has been established in Brazzaville, Congo, to assist in promoting the influence of the free world.

The FAA International Field Office in Miami controlled and directed clearance of commercial aircraft in the Cuban area during the Cuban crisis in October 1962. A prototype airline disaster control plan and an airplane decontmination manual were published; action was taken to protect U.S. carriers by restricting flights in Cuban airspace.

The FAA supported legislation to train peace officers to prevent highjacking of air transports.

NAVIGATION

A program to require the installation of distance measuring equipment (DME) to assist pilots in navigating air carrier aircraft was begun during the previous administration and implemented and accelerated by the present administration.

The number of basic navigational aids, VOR/VORTAC's, was increased during the last 3 years by about 10 percent.

The FAA flight checked the North Atlantic to verify Doppler performance to provide separation criteria for ocean-crossing aircraft; approved cockpit navigation concept using Doppler radar over North Atlantic routes for TWA on February 22, 1962.

"Operation Accordion" was inaugurated in late 1961. This data-gathering project involving 15 international air carriers was aimed at improving North Atlantic navigation and communication to determine the feasibility of reduction of ATC separation standards over North Atlantic routes for the conservation of airspace.

Spanat (systems planning approach to the North Atlantic). Studies have been initiated to develop and implement an FAA/US systems planning program and to initiate international actions for an improved system for the provisions of air traffic control and related services between North America and Europe to meet long-term technical, operations, and economic requirements.

Lower cost ILS ground equipment has been developed and is being field tested preparatory to implementation on a national basis.

TERMINAL ACTIVITIES

While parallel instrument landings have been under study for many years, a parallel instrument landing approach system was put into operation at Chicago's O'Hare.

Postive radar separation in a terminal area began on a test basis in November 1962 for planes landing at Atlanta. The program is to be expanded to perhaps a dozen busy terminals within the next 2 or 3 years.

Radar service for VFR aircraft began under the previous administration and has been expanded to Kennedy, Houston, and El Paso. Traffic advisory information is provided on identified targets as well as on unidentified targets, workload permitting.

A runway visibility program was started in February 1963 at O'Hare, Kennedy, and Los Angeles as a backup to visibility-measuring instruments in the event of failure of instruments. Service also provided during low visibility conditions on runways not equipped with automatic visibility-reporting devices. The programs is to continue until sufficient automatic equipment becomes available for the busiest terminals.

The need for a change in rules for operating in and around tower-equipped airports was apparent to the previous administration. Issued earlier in the year, the change requiring that planes flying in and out of such airports be equipped with two-way radio became effective December 26, 1961.

Radar handoffs of aircraft has increased so that practically all ATC radar approach facilities have attained 93-percent capability and centers 100 percent. In October 1961 less than half the centers and only 16 approach control facilities had the capability to provide this service.

EN ROUTE ACTIVITIES

The use of the radar beacon system was improved in January 1963 making it unnecessary for pilots to change codes every time they entered a new center sector. Pilots now have three code changes to make: climb, cruise, and descent.

Test equipment for direct controller/pilot communications has been installed at two experimental locations representing considerable improvement in range and reliability over present equipment.

The concept of increasing the number of remote air-ground sites, born prior to the present administration, has been implemented and expanded. The number of sites was increased from 278 in June 1961 to 336 in June 1963.

Air traffic control adopted a procedural innovation requesting that pilots report altitude whenever they change frequency to signify the transfer of control from one controller to another. The purpose is to assure that the aircraft's altitude is known to the receiving controller.

A program to train flight service station personnel as weather briefers, begun under the previous administration, was completed in June 1962. This training makes more extensive weather information available to pilots from FAA flight service stations.

Pilot-to-weather forecaster service began on a test basis in July 1961. Conditions actually encountered by pilots is sent back to the forecaster for relay to other pilots, providing them with information on the area they are entering or approaching.

The installation and use of ATC and navaid equipment, begun many years ago, has been accelerated. The availability of long-range radar increased from 46 units in June 1961 to 83 in June 1963. The number of surveillance radars in towers increased from 58 in June 1961 to 74 in June 1963. Instrument landing systems were increased from 207 in June 1961 to 243 in June 1963 (reliability and accuracy has also increased). As to airport landing facilities, approach light systems increased from 140 in June 1961 to 197 in June 1963, sequence flasher lights from 106 to 195.

Area positive control above 24,000 feet started on a trial basis over some 110,000 square miles in October 1960. The program has been expanded to cover all of the continental United States except for portions of the New England States and areas of light activity in Montana and North and South Dakota.

A target date of July 1964 has been established for the modification of the present three-level airway/route structure. An airway structure will exist from 1,200 feet or higher above the ground to 18,000 feet; a jet route structure will exist from 18,000 feet to 45,000 feet; and a high-altitude area will exist above 45,000 feet for flights capable of conducting a point-to-point direct operation.

Rulemaking actions associated with the implementation of the provisions of amendments 60–21 and 60–29 to the former Civil Air Regulations, part 60 (now pt. 91 of the Federal Aviation Regulations), began in December 1962 with anticipated completition during the third quarter of fiscal year 1965. This program provides for the release of portions of controlled airspace for the benefit of the VFR user.

AIRPORT ACTIVITY

The Federal aid to airport program, once left to wither away, has been rejuvenated. Since January 1, 1961, according to estimates, 988 airports involving $291,390,000 in Federal funds have participated in the program, or are planning to participate, included in this amount is $41,601,000 in Federal funds allocated to assist in the establishment and construction of 163 new airports. In 1961 the Federal aid to airport program was extended for another 3 years and appropriations were increased from $63 to $75 million annually.

Guidelines have been developed on heliport site evaluation for use by FAA engineers to aid in airspace actions.

A new range of criteria have been adopted to permit the development of minimum airport facilities to meet the aeronautical needs of smaller communities.

Airport owners seeking to participate in the FAAP program have been assisted by the publication of the criteria used to determine the eligibility of touchdown zone, centerline, and taxi turn-off lighting.

Thirty-three conveyances were made on 43 applications from local public agencies for federally owned land to be used for public airport purposes during the past 3 years under a program continued from the past administration.

The FAA and CAB jointly inaugurated in 1961 the regional airport concept, a prime purpose of which is to formulate a national system of airports designed to offer adequate airport facilities to all communities having a true requirement while avoiding duplication and overdevelopment. To carry out this policy, FAA has participated in 21 CAB proceedings requiring airport studies of about 100 locations.

Some 50 economic and operational analyses of individual community requirements for airports have been developed. In 1961–63 under a program initiated earlier.

A working group on airport policy and planning has been established to review and recommend improvements in the current airport planning methods and concepts. The basic purpose is to get the right type of airports in the right locations.

Arrangements were worked out with the National Park Service for joint participation in locating airports at national park sites. The First Flight Airport was dedicated at Kill Devil Hill near Kitty Hawk, N.C., on the 60th anniversary of powered flight, December 17, 1963; airport construction is under way at West Yellowstone, and bids are being sought for an airport at Grand Canyon.

Local communities were furnished revised standards to encourage the development of airports. They covered site evaluation, airport configuration, design considerations, and construction phases.

A "blue seal" program was activated to encourage general aviation pilots to acquire minimum instrument capability in the event of inadvertently flying into bad weather. Under the plan a blue seal is imprinted on the new ticket of qualifying pilots.

Periodic nationwide meetings with general aviation pilots were inaugurated on the grassroots level in October 1961 to exchange ideas on improving safety through better flying techniques, operating practices, and emergency procedures. There were 12 of these meetings, with attendance ranging from 350 to 920. (Similar meetings were held with aviation mechanics.)

A flight-following service designed to monitor flights from departure to arrival at destinations was conceived by the previous administration and implemented in mid-1961 by FAA flight service stations.

RESEARCH AND DEVELOPMENT PROJECTS

Evaluation tests of arresting gears have been conducted and the feasibility for air transport category aircraft has been demonstrated. The idea of arresting gear for civil aircraft has, of course, been considered for many years.

Studies have been made relating to the crew complement for medium jet aircraft, new aircraft, i.e., BAC–111, DC–9.

The initial study phase of Project Little Guy was completed in March 1963. Aimed at the development of an efficient, economical, and simplified cockpit configuration for general aviation pilots, the study is to result in the development of an experimental mockup that could be developed into the light plane instrument panel of the future.

The advanced radar air traffic control system, which will present identification and altitude on the radarscope, is expected to go into operation in late 1964 as a result of continuing achievement in the last 3 years.

The first inexpensive model of SLATE (small light-weight altitude transmitting equipment) was developed for small aircraft at NAFEC where it has been undergoing tests.

The concepts of the national airspace system were validated and further developed through laboratory test bed facilities for the en route ATC at Bedford, Mass., and for the terminal phase of ATC at NAFEC.

Delivery is expected in the spring of 1964 on initial equipment for the engineering model of the air traffic control subsystem. A $1.8 million contract was signed with Burroughs for the radar video digital processor.

A mosaic generator is being developed to provide composite radar displays, that is, a single enlarged picture derived from inputs of two radars to facilitate radar handoffs from one en route sector to another.

A category II (RVR 1,300 feet) all-weather landing system has been defined and the ground equipment proven. Surveys preparatory to installation of the necessary ground facilities are now underway at 23 airports.

The broad requirements for a category III (zero zero) all-weather landing system have been defined and the proper approach indicated. The requirements will be refined as experience with the category II system is gained.

VORTAC improvements were initiated for easier siting, accuracy, and system utilization, and a low-cost DME was developed and put in use. Parts of earlier programs, they were given a large impetus by the present administration.

Plans for the design of a common aviation weather system were established by the previous administration and carried forward by the present administration. Techniques are being developed and equipment for pilot-forecaster is being evaluated.

Log periodic and wire grid Luneburg lens antennas were installed and evaluated in 1963 to improve the reliability of high-frequency point-to-point circuits that link vital communications between the continental United States and oversea locations.

Extensive tests using two new tropospheric communications facilities near Cape Cod and San Juan have indicated that it may be economically feasible to provide reliable air-ground communications over distances more than triple those spanned by conventional equipment in use at other major gateways to the United States.

MILITARY ACTIVITIES

Progressive steps have been taken to maintain a high degree of cooperation between the Air Traffic Service and the military while keeping national defense requirements in balance with those of other airspace users.

The aerial refueling program, essential to the mission requirements of the Strategic Air Command (SAC), Tactical Air Command (TAC), and the U.S. Navy (USN) was revised in 1963 from an area to a track concept permitting the assignment by air traffic control of altitudes/flight levels along established tracks, thereby providing better management of airspace than was previously possible.

Flight operations at and below 1,500 feet in excess of 300 knots for the purpose of low-altitude navigation and bombing in visual flight rule weather conditions have been accomplished since 1961 essentially on published routes under criteria supplementing the Federal aviation regulations.

The all-weather low-level navigation training requirements of the U.S. Navy and SAC are being satisfied under a program in effect since 1959 titled "Operation Oil Burner." Success of this program is due in part to the civil users' recognition of an urgent military requirement.

A program to provide air traffic control service to interceptor aircraft was undertaken in 1963 by the Air Traffic Service. The program objectives are (1) elimination of the control of aircraft by two independent agencies in the same airspace, and (2) provision of technical assistance in support of the military in those instances when interceptor operations cannot be accomplished within the ATC system.

DISASTER AREA REGULATION

Flight of nonessential aircraft was prohibited in the airspace below 2,000 feet above the surface and within 5 miles of an aircraft or train accident, forest fire, earthquake, flood, or other disaster of considerable magnitude, to reduce the hazard to essential aircraft operating over these areas and to congregating sightseeing aircraft. Identified "news" flights are regarded as essential aircraft.

Mr. THOMAS. You might summarize it quickly for us.

Mr. HALABY. Right quick, it indicates that we have gotten a very sound group of outside systems engineers to come in and help us develop a scheme for the use of the airspace.

We then set up a special group of design men and we have had now for 2 years a consistent stable research development and installation program.

Mr. Shank, Mr. Leng, and General Grant are three people who have come into the Agency in the past 2 years. In Mr. Blatt we have a career man in charge of the R. & D. Those men have been at it now month after month after month, and we have not had the ups and downs, the frolics and detours that were prevalent in the 1950's in this program.

As a result we feel that the system is moving forward very well. We think we have the foundation well laid and now we are beginning to build the upper story.

We have progressed with the integration of military and civil flying to a very encouraging, although not complete, extent.

For example, recently we were able to come into agreement with the Air Force whereby we provide air traffic service to interceptors as they leave the military airbases and enter the system. In the past they controlled themselves until they were well out into the system, and we feel some progress has been made there.

The only way we can come to you with a request for less money and fewer positions is because of internal productivity increases, and that means first that management has to want to do it and, second, knowing how to measure it and implement it. There is encouragement there.

There are quite a number of things, including the reinvigoration of the airport program, which we think this committee has been most helpful in doing. These 3 years have seen a very fine combination of four factors. First, they have been three of the safest years in aviation. Second, they have been marked by improved air transportation services—more routes, more frequencies and, as a result, more profits for the carriers and their employees, and at the same time the fares have been coming down. There has been less labor-management controversy. Those four things have combined during this period not as a result solely of FAA's activity but that of CAB and, most of all, the individuals and corporations in the business.

One area of great concern to us is the near-miss area. By way of introducing our facilities and equipment in the research and development program I would like to point out on this chart which, if agreeable to the committee, we can put in the record, if we could put selectively some of those other charts in. It might be helpful along with the dialog.

NEAR MID-AIR COLLISIONS

This shows for calendar years 1959 through 1963 we have had a series of reports of near misses. The statistics are very difficult to weigh.

(The table referred to follows:)

Near midair collision incidents reported, calendar years, 1959–63

Degree of hazard	Calendar year 1959		Calendar year 1960		Calendar year 1961		Calendar year 1962		Calendar year 1963	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Critical	172	15.5	82	17.5	63	12	62	11.29	85	13.7
Potential	224	20.0	85	18.0	118	23	153	27.86	241	38.7
No hazard	716	64.5	303	64.5	335	65	334	60.83	296	47.6
Total	1,112		470		516		549		622	

Mr. HALABY. For example, in the calendar year 1959 there were 1,112 near misses, 470 in 1960, 516 in 1961, 549 in 1962, and 622 in 1963.

There is no steady rate of reporting these near collisions. It seems to go in cycles. A lot depends on the attitude of the pilot community at the time, as well as what they think will happen if they report a near miss from the Agency.

What we do with each of these reports of near miss air collisions is to get a statement from the pilot reporting, get a statement from the pilot of the other aircraft where it has been identified if the pilot is available for reporting, and then determine on the basis of all the evidence we have been able to get whether it is critical, whether it was a potential accident, or whether it was no hazard at all but simply, you might say, a report of another airplane in the sky.

Here is the record on verified critical near misses—in 1959 there were 172, in 1960 there were 82; in 1961 there were 63; in 1962 there were 62; in 1963 there were 85.

We are not satisfied with uncontrolled flight or with the present level of control. We think we have to move forward from here, and we would like, if the committee wills, to take you to the other room and just off the record explain the situation as it is now and show you how we would like to advance the system from here.

I think the testimony there would be very difficult to report and I can sum it up in one paragraph which would show you the present system and then the level of improvement we seek with these appropriations.

Mr. THOMAS. All right.

(Discussion held off the record.)

Mr. THOMAS. Mr. Halaby, had you finished with your charts?

Mr. HALABY. Yes, sir.

Mr. THOMAS. Anything further?

ALTITUDE AND IDENTIFICATION TRANSMITTER

Mr. HALABY. Two quick things. I wanted to show Mr. Jonas these two devices. These two devices, Mr. Jonas, we have developed in our research and development program.

This is what is called an altitude and identification transmitter. In the airplane it sends a signal down to the center which says this is N–145, the license plate, and it says "We are at 8,000 feet."

That comes off this box in the plane, and the pilot cranks in his identification. It is fed out of this altimeter which goes through this electronic box and transmits the altitude downstairs.

There, through what we call an alpha-numeric generator, which is the principal item calling for new money for new type equipment in this budget, presents it on the radar scope to the controller, and instead of just having a little blip there whose identity he has determined from a flight plan on another part of his console, he now will have a blip with its license plate, with its altitude, and ultimately any collision prediction that might be presented.

He then would really be able to assure from his scope that some of these high speed targets would not have any near miss.

Mr. THOMAS. Exactly what does it show him now which he does not already know? VORTAC will give him the distance from where he is to his destination.

Mr. HALABY. That is right.

Mr. THOMAS. How about these gadgets?

Mr. HALABY. The pilot will see on his receiver in the cockpit the distance to his next station and the direction, the bearing he should fly to reach that station.

On the controller's scope when these are installed he will see the bearing and distance and altitude and identification. He will then know for sure——

Mr. THOMAS. Covers it all, then?

Mr. HALABY. He will know for sure what he is controlling in the controlled airspace.

One of the problems here is that these are expensive to buy, and the private plane pilots do not want to buy these and do not want to be forced to buy them as the price of their going into controlled airspace.

We would like a serene, uncongested airspace where you did not need this, but with the rapid increase in speeds and in numbers of airplanes, we have to have some kind of system like this, and I think it is fair to say that a lot of private pilots fear that this is coming and want to, you might say, defer, or limit it to only where they think it is absolutely essential.

BUILDUP OF FAA

In terms of the buildup of the FAA, I submitted a chart showing that over the years from a bottom in 1954 of $115 million for the CAA to an increase in 1961 to $690 million, we went in 1964 to a peak of $753 million, excluding the supersonic transport, and we are now requesting for the first time in the 5-year history of the FAA a reduction—down to $751 million.

In terms of personnel, we went from a bottom of 15,000 in 1954 to 39,000 in 1962, a peak of 46,432 last year, and we reached the peak and now we are providing for the total in this budget of 45,700, I believe.

I would also point out, and I am bragging about this a little, when I came in in 1961, and it will be 3 years next week, the 5-year projection for this Agency which was handed me, the 5-year plan showed 59,000 jobs. We have been able, therefore, to reduce the projection by 10,000-plus jobs.

Obviously, one can say that was too high a projection, but the fact is that by management, by training, and by automation, we have dropped the projection to a little less than at present for the same period of time.

USER CHARGES

If we could spend just one word on these user charges. This is not before this committee, but I believe that the committee feels that if this system providing this safety and efficiency of flight, providing for less danger, less delays, less diversions, fewer cancellations of flights, if it is going to appropriate half a billion dollars a year for the airways systems that it would like to be able to say that the beneficiaries, the users of the system, are paying back in a fair share to the Treasury. It won't reduce the appropriation but this committee can say to the public that all of the appropriated funds are needed and they are being paid back at a proper ratio.

TAXES

The present revenue from aviation-type taxes in the current year is $136 million, of which the passenger ticket tax is $119 million and the gasoline tax is $17 million. About $7 million of the gasoline tax is paid by the private and commercial aircraft and about $10 million is paid by the airlines.

There is now no tax on kerosene.

Mr. THOMAS. That is the jet fuel, too, is it not?

Mr. HALABY. That is the jet fuel. If you will recall from the earlier chart, we are almost converted from piston aircraft using gasoline to jet and turboprop aircraft using kerosene.

It is rather odd for an aviation agency to be presenting this case, but I feel that it is important because it is not easy for you to go to the floor year after year and say you need three-quarters of a billion dollars for this agency. If you attribute some of the cost to the military and eliminate those costs, and then attribute some of the cost to public protection, such as reclamation, flood control, Coast Guard, and other public services, then there is some remainder that ought to be paid by the users.

I feel that this committee and the public in general is interested in this because it shows that a good public safety service is attributable partially to the military and national defense; partially to general public protection; however, also to the users.

To the extent that we can, and the President has so proposed——

Mr. THOMAS. Where does the Coast Guard and the other agencies fit into the picture? You refer to protection of the public. What do you mean by that?

Mr. HALABY. We do not charge the riparian owners on the Mississippi for flood control projects. We feel they are owed Federal protection through reclamation and flood control and therefore we should not charge the general public for protection, let us say, from falling objects from the sky. We are in that sense reclaiming the airspace and conserving it and preserving life through that.

Mr. THOMAS. What about the Supreme Court decision which puts the liability on the airports for damage caused, for the broken windows, and so forth?

Mr. HALABY. The *Griggs* v. *Allegheny County Supreme Court* decision provided that if an air carrier is able to come within 12 feet of the roof of a private dwelling in approaching a county airport that is a taking of private property which should be reimbursed by the county airport which is obtaining the service of the aircraft. That was a noise case, taking without just compensation case.

As I will point out later in the testimony, we have a number of suits filed against the FAA in accident cases. The most enormous liability is related to the Brooklyn midair collision of December 1960.

Coming back here, sir, we believe under the President's program that there should be a tax on kerosene. In fiscal 1965 a jet fuel tax would yield $57 million. There should be a passenger tax which would yield $127 million. There should be a tax on cargo which would yield $10 million, and there should be a tax on gasoline. Incidentally, this would be a 1-cent increase.

Mr. THOMAS. Were any of these taxes eliminated from the present tax bill?

Mr. HALABY. Several of them expired this year, and I do not believe any of them——

Mr. THOMAS. The big ones. Would it renew the tax on passenger fares?

Mr. HALABY. That will expire July 1 if not renewed. This is not concerned with income tax.

If I may make one last point, I will have completed this.

The gasoline tax would be $18 million in fiscal 1965, of which I think $11 million would fall on the small planes and commercial planes.

Mr. JONAS. The Senate amendment added the following deduction which the House bill eliminated and which the conferees accepted in the confernce report. "State and local taxes on the sale of gasoline, diesel fuel, and other motor fuels."

Mr. THOMAS. The income tax and the excise tax is a different matter, is it not?

Mr. JONAS. That is right. The excise tax extension bill will be up later on.

Mr. THOMAS. So it will have to be reenacted in July, or else it will go by the board.

Mr. JONAS. That is right.

Mr. EVINS. Has the President made these recommendations for these tax revenues?

Mr. HALABY. Yes, sir; for the last 2 years.

Mr. THOMAS. How much would his recommendation raise it compared to what is on the books now?

Mr. HALABY. It would go from $136 million, the present level, to a rate of $212 million in 1965.

COST OF MAINTAINING AIRWAYS

Mr. THOMAS. What does it cost the taxpayers to maintain the airways? Around $850 million?

Mr. HALABY. No. The airway cost alone is about half a billion dollars, rising to about $550 million. This does not, of course, include the whole FAA budget or the CAB budget or the NASA budget, all of which have aeronautical services.

Mr. THOMAS. It would run around a billion dollars, not quite a billion dollars, around $900 million or $850 million. That runs into money. We get about a fourth of it back under the present plan.

APPROPRIATIONS VERSUS WORKLOAD

Mr. HALABY. To go back to the statement, Mr. Chairman, I have tried to show in these graphic presentations and in the models which the committee looked at in the other room, that we are serving an increasing fleet of aircraft. We are providing services to air traffic control towers at a 7-percent increase per year, instrument operations 3 percent per year, revenue passenger-miles up 6 percent last year, and jet fuel consumption up 20 percent.

In other words, we have a growing workload, but we have a reducing number of personnel and dollars.

I think Mr. Jonas asked for what happened at the Budget Bureau, and he indicated that the committee was interested not only to see how much of the savings were our own, but how much had been cut that should be restored.

I guess it is natural to ask the question how FAA can cope with further increases in workload with reduced appropriations and manpower. To put it another way, you might ask: Have you in your zeal to be efficient managers of public safety service risked too much? I

think we have to be completely candid and say we think it has been stretched taut but not beyond the limit.

As I told Mr. Jonas earlier, the principal cut at the Budget Bureau was in deferred facilities and equipment, deferred research and development, and there was a very small cut in the other accounts.

If there are more savings in this budget that we can find, we will realize them. Our President not only has us under that mandate, but has shown and performed a great record of achieving these economies, and we are working hard to provide them for him.

If we have been unrealistic in our economy, we will come back and advise this committee and tell you so, and we earnestly seek the respect of the committee. There are two principal reasons why it is possible to proceed prudently on this budget if you do not cut it any deeper than it has been cut.

First, we have been able to reduce significantly our request for facilities and equipment due to the substantial completion of funding of important elements of the air traffic control and navigation system. The funds you have provided the Agency during its first 5 years have enabled us to overcome much of the neglect of the 1950's. We have already completed the funding of the program for new buildings for air route traffic control centers. We have installed or funded a total of 890 VORTAC's and terminal VOR's to provide navigation assistance to aircraft using the Nation's airways. The installation of long-range radars has been substantially funded, and future costs should be largely limited to linkage tying additional radars to our centers.

We are also now essentially current in the installation of air traffic control towers, instrument landing systems, and approach light systems for those locations meeting high-activity criteria for these aids. Funds will be needed for these purposes only when additional locations become eligible as the result of growth in aviation activity.

There are still gaps in the total system which remain to be filled. We must continue to develop and install more efficient and reliable systems, such as those required to improve our landing capabilities under bad weather conditions. Our centers and certain of our towers urgently need automated systems for the display of radar data showing the location and altitude of aircraft.

ALPHA-NUMERIC RADAR BEACON

A significant portion of the facilities and equipment funds requested in this budget will be used to move ahead with the ground installations required for this important part of the national airspace system.

Mr. THOMAS. That is the $33 million item?

Mr. HALABY. Yes.

Mr. THOMAS. How far along will that $33 million carry you? How many of those instruments will it buy?

Mr. HALABY. These gadgets were developed with R. & D. funds totaling $200,000. They would be purchased by the aircraft owner and installed, first voluntarily and later mandatorily, for certain parts of the controlled airspace system. This would not, therefore, cost the Government, except in the fitting of military and other Government-owned aircraft.

The ground system——

Mr. THOMAS. You are making an expenditure on the ground system at your centers, though, are you not?

Mr. HALABY. Yes. The ground system to use this information by displaying it to the controller in order to enhance his safety assurance ability is the matter in this budget. This provides, first, for a system in Indianapolis——

Mr. DAVID THOMAS. In 10 centers.

Mr. HALABY (continuing). And nine other centers.

Mr. THOMAS. You have 24. So, it will cost about $75 million when you get through with it?

Mr. DAVID THOMAS. No, Mr. Chairman. The first portion of it covers the high altitude, which is the most densely traveled. Just for this portion, for the alpha numeric, for the radar beacon at high altitude, would run us close to $50 million by the time we have completed it.

(Off the record.)

Mr. HALABY. The $33 million, Mr. Chairman, would go into Leesburg, Cleveland, New York, Kansas City, Chicago, Atlanta, Jacksonville, Denver, Oakland, and Los Angeles. The total cost of that system that we showed you in there, where you build from the blip and the shrimp boat to the 4096 license plate identification to the altitude transmission to the computed flight path for the full system, is a complicated estimate, because we hope to reduce the total number of centers as we learn more how to automate this system.

(Off the record.)

Mr. HALABY. Our centers and towers urgently need automated systems for the display of radar data, as I said. We believe that through this equipment and semiautomation we can save jobs and money.

PRODUCTIVITY IMPROVEMENTS

The next reason the Agency expects to carry out its 1965 program with fewer positions than during the current year is largely attributable to the striking progress which the FAA has made in developing an effective management system, fostering cost-consciousness at every level, and improving the productivity of individual employees by motivation of the individual, by improved administrative processes, and by the provision of technical training and better equipment for the traffic controller and the maintenance technician.

I think this is a startling figure, Mr. Chairman. During the period 1961 through 1963, the productivity of both air traffic control and systems maintenance personnel improved about 8 percent and 4 percent, respectively. We are expecting to achieve an improvement of 10 percent in employee productivity in these activities during 1964 and 1965. We think that compares with some of the best productivity improvements in private industry. In fact, most of the companies in the Bell System have as their goal about this amount, and of course that is a semiautomated system. About 4 to 6 percent per year improvement in output per employee is their goal. This makes it possible for the Agency to ask for a lower total position level in spite of workload growth.

Mr. THOMAS. The nearest private industry to your business is the telephone business when it comes to repair and operation, is it not?

Mr. HALABY. Yes, sir.

Mr. THOMAS. You say you are approaching their figure on efficiency?

Mr. HALABY. Their published figure; yes, sir.

Mr. THOMAS. It appears to me that the area which perhaps offers to you the greatest opportunity for improvement is the installation and repair of equipment.

Mr. HALABY. The total personnel engaged in air traffic control and systems maintenance is about three-quarters of our total complement, so any positions or hours or dollars we can save there is a very important saving.

I think we should give credit particularly to Mr. Leng and his associates in getting this equipment at a lower price. In the past, we have overspecified some of our equipment by making it do too many things and under too many conditions. He and his associates and Mr. Thomas have been working on refined but simplified specifications. Mr. Shank advises me it looks as though he and these men have been able to produce an instrument landing system which a couple of years from now will cost $90,000 instead of $270,000. So, we are not just reducing the number of people; we are also reducing the price by more up-to-date specifications and engineering.

Mr. THOMAS. In going through your budget, have you clearly separated all your employment? Do you have your employment figures consolidated on maintenance, separated from purchasing, equipment, and so forth?

Mr. DEAN. We have done that this year for the first time.

STAFF AND SUPPORTING SERVICES BUDGET

Mr. OSTERTAG. Mr. Halaby I assume this is the appropriate place to raise a question with regard to your overall management service and other administrative departments where you show no decrease. Since you have had a reduction in the overall staff within the Agency, what about the proportionate decrease in such departments as management service?

Mr. HALABY. Mr. Ostertag, the people in the Agency ask me about that question, too, because I guess they feel maybe the reduction in operating people has been disproportionately larger than the staff people.

We have had a 3-percent reduction between fiscal 1964 and fiscal 1965, approximately 119 people. This is, I think, a worthwhile reduction, and I think it fair to say we are still working on it.

I shall ask Mr. Dean to comment further on that, since this is his area of the Agency.

REDUCTION IN POSITIONS

Mr. DEAN. Mr. Ostertag, as Mr. Halaby has pointed out, the total reduction in staff services is 119, of which 84 were in the management services area. This compares very favorably with the overall position decrease.

There is an increase in funds for management services purposes, but the great bulk of that is due to the cost of space, such as the Aviation Records Building at the Aeronautics Center, and the colocation of space in regions. These space costs are charged against support and overhead, but are not for personal services.

DEFINITION OF "STAFF SERVICES" AND "SUPPORTING SERVICES"

Mr. OSTERTAG. What is the ratio of staff-type personnel to operating personnel, and what is included in each category? You have partially answered that, I believe, but what is the ratio of staff personnel to operating personnel, and what is the difference?

Mr. DEAN. Mr. Ostertag, if you will look at page 105 of the summary book, the thin book, the very last sheet, it shows the activities of the Agency which are listed as "Staff services" and those that are indicated as "Supporting services," together with the total positions and total amounts of money being requested.

In answer to your question as to what is meant by "staff services," the term includes the overall central direction of the Agency such as the Administrator's Office and the regionl directors' offices under the heading "Executive Direction." It includes our island and station managers and certain area coordinators in the Agency who have an overall management responsibility. It includes our public affairs and internal information people. It includes a small staff concerned with congressional liaison, relationships with aviation organizations and aviation education. It includes management services, which covers the accounting, audit, central administrative services, management improvement, and general administrative staff activities.

It includes the personnel function other than technical training; the compliance and security function, which is concerned with loyalty, suitability, prevention of corruption, security of documents; our legal offices; the Office of Budget, which prepares these voluminous documents you have today; the international aviation affairs staff office, which gives assistance to the Administrator and to other Agency officials in international functions; a very small office engaged in the development of policy and economic studies; a small office appraising the total effectiveness of programs; and our regulatory council, which assists in regulatory functions.

RATIO OF STAFF AND SUPPORT TO TOTAL BUDGET

All of those important functions are listed under "Staff Services." Under "Staff Services" are about 6.8 percent of the Agency's positions, but the cost is only 3.91 percent of the obligations that the Agency is estimated to incur in 1965.

The reason here is that the average staff services salary tends to be somewhat lower than in other fields.

Mr. OSTERTAG. The ratio is about 5 to 1, is it not?

Mr. DEAN. No, sir. Taking all positions in the Agency, the ratio is 6 percent of Agency employment in 1965 for all of these purposes, and that 6 percent——

Mr. OSTERTAG. I mean the ratio between supporting and management services.

Mr. DEAN. Between total staff services and management services, about two-thirds would be management services.

Mr. OSTERTAG. I was going by the sheet, page 105, where your staff services show, for fiscal 1965, 2,902; as compared with supporting services of 587. Maybe I am on the wrong track on the difference.

Mr. DEAN. I misunderstood your question. Most of the 587 additional supporting services positions are for the maintenance of physical plants, such as the Aeronautical Center and NAFEC.

Mr. THOMAS. To get a clear picture of it, you will have to show three factors. One is location, how many you have in the District of Columbia. You have to divide it between your housekeeping activities and your staff people. Mr. Ostertag wants a breakdown of two of them.

Mr. OSTERTAG. First of all, what is the ratio of staff-type personnel to operating personnel? The figures on page 105 of the justifications do not disclose that. I gave a wrong comparison because I was going by the figures there. As I see it, that does not actually reflect staff as compared with operating personnel.

Mr. HALABY. Taking total number of personnel in the Agency, the staff personnel would be 6.8 percent; in other words, about 7 out of 100, against the total number of positions. Then of the total appropriation request, the cost of the staff services would be 3.9 percent.

Mr. OSTERTAG. What about the question of assignment to various operating services and the performance of tasks similar to those that are carried on in management service? Is there any picture you can disclose in that regard?

Mr. DEAN. Yes, sir. The Federal Aviation Agency, I think, is unusual in the degree to which it places in its staff and service officers the responsibility for the functions of the whole Agency. We are not, like many large agencies, divided into administrations or bureaus, each one of which has its own personnel office, accounting organization, legal staff, et cetera. When we talk about personnel offices in FAA, we are referring to those in regions, the centers, and the headquarters, all of which appear under staff support in our budget justification. There is only one General Counsel's Office for the Agency, with regional counsels under the regional director. They also all appear under staff and supporting services.

So, when we given you these statistics, both as to funds and as to positions, we are giving you a very complete picture of our staff and supporting activities. Obviously, there will be some people assisting operating managers who will be advising on personnel matters or advising on program needs, but there will not be accounting, personnel staff, or anything of that sort.

ASSUMPTION OF MILITARY FUNCTIONS

Mr. OSTERTAG. While we are on this subject, I have one more point that I would like to raise, Mr. Chairman. That has to do with military functions that formerly were performed by the military in this fiscal year, that you are taking over.

Can you show what the additional costs might be and what the picture really is? I assume that you have gradually moved into more and more responsibility for the military, and I think there is need for

separation and determination of what that cost and function might be.

Mr. HALABY. Yes, sir. I would like to get at that, because it is a very important issue.

Just in terms of going back a little over 5 years ago, when the Federal Aviation Act was passed and the Agency was set up, you remember it was no longer called the Civil Aeronautics Administration, but the Federal Aviation Agency, and provided for an integration of military flight control, navigation and communications, with civil. It did not provide for the full unification of them.

It also made specific provisions that there would be military personnel in FAA. In fact, the first Administrator was an Air Force lieutenant general. The personnel employed in the Agency reached a peak in January 1960 of 131, and it is now, in January 1964, 78 personnel. The Deputy Administrator is an active duty Air Force lieutenant general assigned by the Secretary of Defense with the approval of the President.

Over these 5 years there has been a gradual assumption of some of the military functions, navigation, communications, and traffic. For example, last year you funded us for the aircraft movement information service. As I remember, it was $3.2 million. You also provided $7.5 million in fiscal 1963 to take over flight inspection of all military and civil facilities here and at certain oversea military bases. We have taken over maintenance of certain military long-range radars, and that is in here for approximately $7 million, over $1 million for 12 of them in fiscal 1965.

We find that military flight information service of about $3 million is being performed by the FAA.

The total of all of these accounts that I have just given you is about $29 million since 1959. This is the annual amount for takeover of these functions.

Mr. OSTERTAG. You have told us there is an increase in that function and responsibility.

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. Can you give us an estimate of what the additional cost might be in this budget for this fiscal year with regard to the military responsibilities?

Mr. HALABY. I think it is fair to say of those total airways——

Mr. OSTERTAG. Do you separate it, in other words?

Mr. HALABY. We do not have a separate military budget. We have a table which I think we prepared for you for the first time last year, in which we show the civil-military distribution of the 1964 estimates, summary of all FAA appropriations. We break it down into three categories: Operations, fiscal 1965 estimate, $549 million, of which we attribute $139 million as the military share, approximately 25.4 percent in operations. In facilities and equipment, the total military share we believe to be about $18 million, which is 24.7 percent of the fiscal 1965 estimate of $75 million. On research and development we attribute $9 million to the military for 21 percent. This is an estimate of the share of the Agency effort which supports military and civil aviation. It is based upon the usage of our services and facilities by both civil and military.

Mr. OSTERTAG. I was thinking primarily in terms of operations and operating costs. Do you believe that this additional cost and re-

sponsibility you are assuming should normally be a reduction on the part of the military? Are these functions that they normally have performed?

Mr. HALABY. If we did not perform them as part of an integrated system and they had to perform them for themselves, we think this allocation is reasonable. Another way of saying it would be if you wished to say that about 20 to 25 percent of this budget was for national defense usage, it would be accurate.

Mr. THOMAS. Mr. Ostertag, the question that troubles me is, Does this complete your takeover of the military, so to speak?

Mr. HALABY. No.

Mr. THOMAS. How much more do you have?

Mr. HALABY. You have to look at all the things they do in comparable activities.

For example, each one of the SAC bases has a tower and has an approach and departure control.

Mr. THOMAS. But you are not going to get into the day-to-day and minute-to-minute operation of every plane they have?

Mr. HALABY. That is right. They have approach and departure and landing control.

Mr. THOMAS. Blending it into a single system, have you not gone just about as far as you can go?

Mr. HALABY. I would say under the present arrangements, policies, and realities of the situation, we are coming pretty close to that point.

Mr. THOMAS. Let us see exactly what you are doing. Three years ago you took over the inspection of all the installations, inspection from the air. Now you are operating some of their centers. You took over some of their personnel last year. It was about 340 of their personnel. You are using their equipment.

I had in mind a third thing that you are doing.

Mr. HALABY. In that same category, flying over their facilities and inspecting them.

Mr. THOMAS. Yes.

Mr. HALABY. We have joined with them at one site, at Great Falls, Mont.

Mr. THOMAS. That was last year.

Mr. HALABY. It was last fall. We took over the aircraft movement information service, which was a new item last year.

Mr. THOMAS. Have you any other steps or plans in view in the next year or the year after next?

Mr. HALABY. This year we are providing service, without any new equipment or people, for the interceptors from the Air Defense Command bases, which we were not doing in fiscal 1963. We have already set up the tower and approach and departure control at Andrews Air Force Base. There may be other bases where it would make sense on both operational and economic grounds to do so.

Mr. THOMAS. If you do that at all their big bases, you really have some more money coming to you, have you not?

Mr. HALABY. If the decision was made by the President, the Secretary of Defense, and FAA to go into a single system—for example, MATS bases but not SAC bases—that could be another step. The problem is that we find we would not save much money, and the military are very loathe to have civilian control.

Mr. THOMAS. Have you not gone about as far as you can go to preserve the individual service within the armed services, whether Army, Navy, or Air Force, to preserve their individual identity? As far as the general public is concerned, when you blend in all of their operations with a civilian operation, have you not just about done that?

Mr. HALABY. If you accept the present situation——

Mr. THOMAS. You have laid down flight standards. You say this type of plane, whether civilian or military, must fly at a certain altitude. You cannot duck in here and out of there without giving warning or maybe you cannot do it at all, whatever your rules and regulations are. You set certain rules. That just about covers it, does it not, unless you go in and take over the complete operation of every plane they have?

Mr. HALABY. There is a halfway house, and we are moving in the direction of what we call a joint surveillance system. In other words, we do not take over the control tower on the Offutt Air Force Base where SAC is based.

Mr. THOMAS. How many does the military have that you have not taken over?

Mr. DAVID THOMAS. I do not know, sir, but I guess 16,000 to 17,000.

Mr. OSTERTAG. Are you reimbursed in any way by the military for your services?

Mr. HALABY. No, sir. Under the act we are supposed to provide a common system, and they say: "You are just carrying out your responsibilities. You can attribute 24 percent of the cost to national defense, but we do not reimburse you for it."

Mr. THOMAS. Gentlemen, excuse us until 10 in the morning.

This has been very helpful.

WEDNESDAY, FEBRUARY 26, 1964.

Mr. EVINS. The committee will come to order.

We will be glad to have the Administrator proceed with his statement.

COST OF MILITARY SERVICES ASSUMED

Mr. HALABY. Yes, sir. I wanted to complete my answer to Mr. Ostertag's question of yesterday about the assumption of military services. Overnight, Mr. Ostertag, we prepared a list showing seven categories of military services assumed, beginning in fiscal year 1959, which was the first year of the FAA, and coming up through the present. That accumulative list shows that there are approximately 2,258 positions and $29.4 million in our present fiscal year 1965 estimate attributable to those services which have been assumed, and if the chairman wishes, I will put that, together with an explanatory note, in the record at this point.

Mr. OSTERTAG. I would so request.

Mr. EVINS. It may be included.

(The information follows:)

Fiscal year 1965 estimated cost of military services assumed beginning fiscal year 1959

	Positions	Amount
AMIS program (including $137,000 leased communications)	236	$2,522,000
Military flight service (including $112,000 service B communications)	379	3,018,000
Military approach control (18 facilities)	513	7,367,000
Maintenance assumption of military long-range radars (14 facilities)	686	7,464,000
Andrews AFB facilities	56	598,000
Height finder radar (5), including logistic support (ADC reduction program)	38	321,000
Flight inspection of military facilities	350	8,100,000
Total	2,258	29,390,000

FLIGHT SERVICES

At the time the military flight service program was transferred, savings were estimated at $1.5 million.

AMIS

AMIS positions were reduced by 106 because of:

(1) Center consolidation;
(2) Reduced overall workload;
(3) Integration of these functions with normal duties of controllers.

FLIGHT INSPECTION OF MILITARY FACILITIES

The initial budget estimate in fiscal year 1963 was $9.3 million. By integration of militray workload with normal FAA workload and by flying additional hours in DC–3 as opposed to T–29 aircraft, the total additional cost allocated to military facilities is now estimated at $8.1 million.

Comparable costs of maintenance of long-range radar, approach control, and other facilities transferred from the DOD, are not available.

Mr. OSTERTAG. It is not quite clear to what extent this is going to extend beyond present-day operations and services and it is not clear what the ultimate cost might be. Do you project that, Mr. Administrator, in your tabulation?

Mr. HALABY. First, if you go back 5½ years to the debate over the Federal Aviation Act, you find that there were some who favored a complete, unified, single system, and there were others who felt there should be a gradual integration into a common system and the act in section 103 states the policy of the United States with regard to the common system.

It says:

The Administrator shall consider the following, among other things, as being in the public interest.

(e) The development and operation of a common system of air traffic control and navigation for both military and civil aircraft—

and in other parts of the bill it states that, in section 307:

The Administrator is authorized and directed to develop plans for, formulate policy with respect to, the use of the navigable air space under such terms and conditions and limitations as he may deem necessary in order to assure the safety of aircraft, the efficient utilization of such airspace. He may modify or revoke such assignment when required in the public interest.

In 306 it said:

In exercising the authority granted in and discharging the duties imposed by, this act, the Administrator shall give full consideration to the requirements of national defense, and of commercial and general aviation, and to the public right of freedom of transit through the navigable airspace.

Then it makes some exceptions. Among others it says, in section 307(f):

When it is essential to the defense of the United States because of a military emergency or urgent military necessity, and when appropriate military authority so determines, and when prior notice thereof is given to the Administrator, such military authority may authorize deviation by military aircraft of the national defense forces of the United States from air traffic rules issued pursuant to this title. Such prior notice shall be given the Administrator at the earliest time practicable, the extent and circumstances permit.

CIVIL—MILITARY TRAFFIC CONTROL SYSTEMS

The first Administrator began working these matters out and I followed along and continued working them out with the military. At the present time we have two systems—I should say two programs of air navigation, communication and traffic control. One is the civil program which we administer and the other is the military.

There are some 13,000 military officers, enlisted men and civilians who man the towers, who maintain the facilities and the radars directly concerned with Air Force and Navy and Army navigation, communication and traffic control. They have thousands of facilities at military bases. For example——

Mr. OSTERTAG. Of their own?

Mr. HALABY (continuing). Of their own. Now, where the common system begins is in the common use of the airspace and in the joint use of certain equipment, such as radars. For example, the most nearly common single system is at Andrews Air Force Base, where we man the tower, the radar approach and departure control and it is literally a single unified system of air traffic control in the Washington area because all of the towers, all of the departures and approaches are under FAA control.

Another case would be in the use of a military radar. During the period 1959–65 we will have been maintaining 14 military long-range radars. In the 1965 estimates these will require 686 men and $7½ million to maintain those long-range radars.

Of course, we could have set up an FAA radar to cover the same sky but it did not make any sense to do so. By using these 14 military installations, we have saved a lot of money in procurement of radar.

Mr. OSTERTAG. I do not want to labor the question of the military relationship to FAA but we are concerned here with your requirements, your budget, and your appropriations. You are performing a service for another agency of Government and you are not reimbursed for that service. Therefore, the burden or the responsibility, costwise and otherwise, is reflected in your budget; is that true?

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. The thought comes to my mind with regard to your communications systems, BUIC and SAGE and also the question of an emergency situation. If the chips are down will the military suddenly take from you that control or that jurisdiction?

Mr. HALABY. Under section 307(f) they have that authority and can advise me after the fact that they have had to on account of military reasons, urgent military necessity, as it said, to proceed, regardless of the rules.

I think a very significant trend is this: As you know, Secretary McNamara is closing, I believe, six of the SAGE centers and perhaps later he wil close more because the military threat is changing from predominantly a bomber, a massed bomber attack from the north to a missile and bomber attack. The SAGE system is of very little significance with respect to missile attack.

Mr. OSTERTAG. But you are in the same system now; aren't you?

COMMON SURVEILLANCE OF AIR SPACE

Mr. HALABY. We are, in this sense: That we have one joint location out in Great Falls on an experimental basis. We use the same radar antenna that give them data; and pipe it into our centers. But there is a trend developing in the air defense system where they are moving away from these large SAGE sector centers into a more decentralized backup, interceptor kind of situation. When that happens it may be that gradually they will have with us a kind of common or joint surveillance of everything that flies through the airspace and then they will have a separate fire control kind of system where they direct fighters and missiles to incoming enemy targets, so in answer to the chairman's question yesterday we have moved slowly in these seven categories toward integration of the military with the civil. It is far from a complete, unified system. The trend, however, is toward a common surveillance of the airspace, as the manned bomber threat dissipates and as a threat from excessive air congestion increases.

Mr. OSTERTAG. Some of these functions are strictly military and others are joint or a dual operation.

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. Are you able to separate cost between the two by virtue of what it actually costs you to perform this service for the military as against what it costs you to carry on otherwise?

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. That is what your table shows.

Mr. HALABY. The table we just put in the record shows the cost of assuming certain services. Then the other table that we mentioned yesterday shows that about 21 to 26 percent, depending on the category of our appropriation, is attributable to military use of our system.

FUNDING RESPONSIBILITY FOR MILITARY FUNCTIONS

Mr. OSTERTAG. I have one more question. That is whether or not the cost for this service should be a responsibility of the military so far as the budget is concerned, with reimbursement to the FAA for whatever the exact amount might be.

In other words, you are assuming costs that belong to them. Has it ever been considered; has it ever been a matter of administrative concern?

Mr. HALABY. I think when the responsibility and the authority are separated from the funds, nothing but mischief ensues in the administration of a Government program. If we are held responsible for the

common system, as we are, then we must have the funds and the authority to carry out our safety responsibility.

Now it is true that when you go on the floor and explain the bill for air traffic control, you can very clearly, in my judgment, say that $150 to $200 million of this total budget is really for national defense. That is honest, accurate, and complete, and that the Congress in voting it has every right to recognize that, like in many other programs—atomic energy, foreign aid, many, many programs that are of a civil-military nature—there is a net addition to the national security budget. But I think it would be, at least from where I sit, more unwise to have them, and they would certainly consider this at the margin of this budget, have them request and defend the amount of money, some $170 or $180 million and then turn it over to another agency for administration. No agency, and in particular the military, likes to do things that way.

Mr. OSTERTAG. Well, there is a relationship with the military in the space field. There is a coordination or there is a transfer of funds to support it.

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. One agency performs the service for the other, that is the sort of thing I had in mind. I am thinking in terms of an expenditure for a service here that is reflected in your budget, which is being performed for another agency without their reimbursing you for the cost.

Mr. HALABY. That is right.

Mr. OSTERTAG. That is my only point.

Mr. HALABY. I understand.

Mr. OSTERTAG. I was wondering how you reacted to the idea.

Mr. HALABY. I think you should certainly allocate and attribute and show that some 25 percent of this airways budget of ours is for military uses.

Mr. OSTERTAG. I think it is important.

Mr. HALABY. Just like a substantial percent of the atomic energy program is attributable to defense.

Mr. OSTERTAG. I think it is important that we show, Mr. Administrator, that this entire cost and operation is not solely a civilian or a commercial cost or entirely the Federal Aviation Agency's responsibility in that you are performing the service for the military, and the funds are reflected in your budget.

Mr. HALABY. Yes, sir.

Mr. JONAS. Would the gentleman yield?

Mr. OSTERTAG. Surely.

JOINT USE FACILITIES OPERATED BY FAA

Mr. JONAS. Would you show in the record how many installations in the world are similar to the situation that exists at Andrews, where you have complete control?

Mr. HALABY. In the world?

Mr. JONAS. Yes. I do not mean identify them, but how many would you say, first in continental United States?

Mr. HALABY. In the continental United States it is the only one.

Mr. JONAS. It is the only one that you have complete control over use of airspace?

Mr. HALABY. Yes, sir; the airspace right over the runway and throughout.

Mr. OSTERTAG. Where it is exclusively military?

Mr. HALABY. Yes, sir. Of course, that is not exclusively military. As you probably know, it is one of the busiest airports in the world. It is predominantly military, but in addition to military flights there are a large number of flights of civilians. You, yourselves have flown in and out of there. The Presidential flights are in and out of there. There are logistical and commercial charter flights in and out of there and it is right next to two major civil airports and surrounded by several small civil airports, so it is quite a unique situation. That is why we have there the tower and the maintenance of the tower and the radar departure and approach control. That is why we have in our budget money for modernizing that tower. I think some of the legislators have been concerned that we would start doing that for all military bases. We certainly do not have that intention or appropriations for that purpose.

Mr. JONAS. How many airfields that are used commonly by civilian planes and the military do you have complete control over?

Mr. HALABY. There are quite a number of Air National Guard and Reserve unit fields.

Mr. JONAS. But there are none that are used at military bases other than Andrews where you have complete control?

Mr. HALABY. I would say that Mr. Thomas can supplement this.

Mr. DAVID THOMAS. There are some joint use, where the base is jointly used by the airlines and the military, like Charleston, S.C., which is a MATS base.

Mr. JONAS. That is used by the service.

Mr. DAVID THOMAS. They are jointly used.

Mr. HALABY. I think you are thinking of the combat units, aren't you, Mr. Jonas?

Mr. JONAS. I was just trying to get in the record how many installations that are used jointly by the military services, the regular services and civilians at which you have exclusive control, similar to the Andrews situation, although not exactly, because that is predominantly military.

Mr. DAVID THOMAS. Mr. Jonas, I think there are about 40 such locations, like Albuquerque, Kirtland Field, and the Charleston situation, where we do have joint use of an airbase, usually with military buildings on one side of the field and a civilian terminal on the other side.

Mr. JONAS. You control the tower?

Mr. DAVID THOMAS. In all such locations we control the civil tower, instrument landing system, and the radar where there are joint civil-military uses.

Andrews is the only situation where the principal use is military, where we exercise control.

Mr. JONAS. Thank you.

Mr. OSTERTAG. One more question: Do you have any conflict with the military over the fact that you regulate and control? Do they resist this layer of supervision over them?

Mr. HALABY. I think that resistance has diminished with time. In 1958, when there had been some military collisions with civil aircraft, and when the act was passed, I think there was a feeling of reluctance

or opposition. I think it has diminished with time and I think that, as the chairman pointed out yesterday, we have reached the point where any further integration would come very hard and would have to be based upon proof that there were operational advantages, that there were economies, and that those controlling military traffic on a military base were subject to courts-martial.

Mr. JONAS. Would you yield again?

Mr. OSTERTAG. Surely.

PARACHUTISTS ACCIDENT AT FORT BRAGG

Mr. JONAS. Do you have any information about what happened at Bragg yesterday when four parachutists were killed by a plane flying through them while they were parachuting?

Mr. HALABY. That was strictly a military operation and I have no more knowledge, sir, than the newspaper report. I would undertake to get from the military a report and give it to the committee tomorrow if that was your desire.

Mr. JONAS. I am interested, not as a member of the committee, but as a citizen.

Mr. OSTERTAG. Do you investigate?

Mr. HALABY. No, sir.

Mr. JONAS. I cannot imagine any more tragic thing happening than for a plane being allowed to fly through a bunch of soldiers parachuting and cutting them to pieces.

Somebody should have had some control over that airplane.

Mr. OSTERTAG. Where is the lack of control in a case like that?

Mr. HALABY. In those training and field exercises of the military, they exercise complete local control and we have no responsibility. I might say that during the past couple of years we have, for the first time, promulgated regulations regarding civil parachuting in relation to the airspace and, as you know, this sport of sky diving has become more and more prevalent, so we are having more difficulty. Fortunately, to my knowledge, we have not yet had a collision between a civil aircraft and a civil parachutist.

Mr. JONAS. If it is not too much trouble for you, I would like to have a report.

Mr. HALABY. Yes, sir.

Mr. EVINS. Your civil record is very good in this regard, then.

Mr. HALABY. So far as I know.

Mr. DAVID THOMAS. We have had no real problems.

Mr. HALABY. We have had no accidents.

Mr. DAVID THOMAS. We have had a few complaints. We have had a few people jump in violation where they shouldn't, but we have had no accidents.

MILITARY VIOLATION OF FEDERAL AIR REGULATIONS

Mr. HALABY. Where there is a violation of the Federal air regulations by the military, as there were in 1962, 162 reported in 1962 and 91 recorded in 1963, we make the case, verify the evidence, and present it to the military commander as required by the Federal Aviation Act and he takes action on it within his command.

Mr. OSTERTAG. That is a thought that disturbed me. Despite the fact that you have jurisdiction, regulation, and controls, there is a difference between other operations and military operation and if the military violate and do not adhere to the regulations or to the controls, what can you do about it?

You have means of taking action against other than military but what steps can you take with the military?

Mr. HALABY. In the course of a violation—that is, while it is going on—we can guide and direct the individual pilots involved. For example, if in an almost unbelievable case where a military pilot would refuse to accept vector from an air traffic controller, we would, of course, vector the other aircraft. In our work in separating aircraft in avoiding collisions, we always have two aircraft involved.

After the event we simply get all of the evidence together and must rely upon his military superiors to take action. There have been very, very few violations, and I don't think there is much evidence of defiance or contemptuous activity. It is more often human mistakes and accidental misunderstandings than any kind of military active resistance. On the other hand, in these pilot reports of near midair collisions over the last period—for example, in fiscal years 1963 and 1964, we find that the reports of near midair collisions are more than a third involving military aircraft, more than a third of the total number of reported near midair collisions, involve military aircraft.

Mr. DAVID THOMAS. Yes, sir; I think it might be helpful if we would also point out that many of these military maneuvers, which are unusual, such as intercepting aircraft, or parachute jumping, or assault, or actual gunnery, divebombing, and many other maneuvers that they must practice, we provide for restricted airspace to protect that operation from other civilian and military operations. I believe such was the case at Fort Bragg yesterday, that they were actually doing maneuvers within airspace protected from other aircraft going through.

Mr. EVINS. In any event, all of these matters are spelled out by the statute. They have been rather well firmed up and agreed upon over the years. The FAA issues the regulations. When violations occur, the Department of Defense is notified. They, in turn, take action. Is that about the summation?

Mr. HALABY. Yes, sir.

PERCENTAGE OF BUDGET RELATED TO MILITARY OPERATIONS

Mr. EVINS. With respect to this budget you have said several times that 22 to 25 percent of the cost should be attributable to military operations or defense purposes?

Mr. HALABY. Yes, sir.

Mr. EVINS. Would you spell that out again, dollarwise?

Mr. HALABY. We take three categories—operations, facilities and equipment, research and development, and the percentages are 25.4 percent, 24.7 percent, 21.2 percent, respectively, and the total amounts are $140 million, $19 million, $9 million, respectively. It rounds off at about $168 million.

Mr. EVINS. About $168 million, total?

Mr. HALABY. Yes, sir.

Mr. EVINS. Attributable to defense support or national defense?

Mr. HALABY. The usage of our system.

Of course, you know that we would completely go under the Secretary of Defense in wartime, and there as a potential military usage, we are potentially, almost 100 percent.

Mr. OSTERTAG. You do remain a civilian agency, but you would be subject to their direction?

Mr. HALABY. Yes, sir.

STATUS OF INTEGRATION WITH MILITARY SYSTEM

Mr. EVINS. There exists a fine spirit of cooperation and working together at the present time. You state that you have just about reached the maximum of your integration of these control operations?

Mr. HALABY. On the present system in the present operations. In the future it will work over into the area of a common system of surveillance, as I see it. Maybe you will—ultimately someday, all of facilities might be maintained and most of them manned.

I think this has brought out a very important point, Mr. Chairman, because I think there are still some Congressmen who feel they turned over the whole thing to the FAA in 1958, and they didn't. I think this is the impression held by quite a few members and others.

Mr. EVINS. Before we continue, Mr. Administrator, if you have not already done so, will you supply a table showing the numbers of operations that FAA controls exclusively, those that you control in conjunction with the Department of Defense or some other category if required? We will have the numbers, not necessarily the amounts of money or the numbers of personnel, but the numbers of stations individually maintained and in cooperation with the Defense. We will have this for the record?

Mr. HALABY. Yes, sir.

(The information supplied follows:)

Air traffic control tower services

	Number of towers	Total operations, fiscal year 1963		
		Total	Military	Civil
		Thousands	*Thousands*	*Thousands*
Towers operated by Federal Aviation Agency	[1] 273	29,104.6	3,685.3	25,419.3
Towers operated by military (worldwide):				
Air Force	190	12,067.8	11,342.7	725.1
Army	133	4,511.8	4,141.4	370.4
Navy	84	7,285.3	6,926.5	358.8
Subtotal	407	23,864.9	22,410.6	1,454.3
Total	680	52,969.5	26,095.9	26,873.6

[1] Includes 12 towers located on Air Force bases and 84 towers at civil airports with military operations, Reserve training, or other such activity thereon.

Mr. EVINS. Did you wish to continue further your statement or to highlight some of it, or discuss some of the big problems with which your Agency is confronted?

Mr. OSTERTAG. Off the record.

(Discussion off the record.)

General Statement of Mr. Halaby

Mr. Evins. Can you summarize or highlight the remaining portions of your statement and include it all in the record?

(The prepared statement follows:)

Statement by Mr. Najeeb E. Halaby, Administrator, Federal Aviation Agency

I am happy to appear again before the Committee on Independent Offices, this time to present the budgetary requirements of the Federal Aviation Agency for the 1965 fiscal year. This is the fourth time that I have been privileged to present our estimates. It is of particular meaning this year since the President's budget is the tightest and tautest budget ever presented by the FAA, calling as it does for a reduction in both positions and new obligational authority. This means that the assurances which I have previously given the committee that the Agency's growth would level off have in fact been realized and documented in cold print.

You will recall that when I appeared before you in defense of our 1962 fiscal year appropriations we requested 2,629 additional positions. In 1963 we sought an additional 3,998 positions. By last year we had substantially checked the Agency's rate of growth, but we still requested an additional 1,030 positions. For 1965 the Agency not only plans to meet its obligations to the public and the aviation community without additional employees, but it is in fact proposing 754 positions fewer than authorized for the current fiscal year.

The Agency has been most appreciative of the support which the Congress has given to its programs since its establishment in 1958. We have, therefore, felt a special obligation to hold positions and expenditures to lower levels than those approved by the Congress, if any means to do so could be found. Although the Agency continued to grow during the 1962–64 period, fewer employees were added in those 3 years combined than in the 1961 fiscal year alone.

The effect of Federal pay increases and the need to maintain and operate additional facilities scheduled for commissioning during the 1965 fiscal year has made it extremely difficult to reduce our total funding needs. We have, however, asked for total appropriations of $15 million less than approved by the Congress for the 1964 fiscal year, for comparable appropriations.

We are thus coming before the Congress asking for fewer positions and less money in the face of a continued steady growth in aviation. During the 1963 calendar year total operations handled by FAA air traffic control towers increased 7 percent, instrument operations increased 3 percent, revenue-passenger-miles increased about 6 percent, and jet fuel consumption increased 20 percent. Our forecasts for 1964 and 1965 indicate a continued growth in virtually every aspect of aviation.

The question will naturally arise as to how FAA can cope with further increases in workload with reduced appropriations and manpower. Or, to put it another way, you might ask have you in your zeal to be efficient managers of public safety service risked too much? We think we have stretched it taut, but not beyond the limit. If there are more savings we will realize them. If we have been unrealistic in our economy, we will come back and advise this committee whose respect and confidence we earnestly seek. There are two principal reasons why it is possible to proceed prudently on this budget if you do not cut it any deeper.

COMPLETION OF FUNDING OF MAJOR INSTALLATION PROGRAMS

We have been able to reduce significantly our request for facilities and equipment due to the substantial completion of funding of important elements of the air traffic control and navigation system. The funds you have provided the Agency during its first 5 years have enabled us to overcome much of the neglect of the 1950's. We have already completed the funding of the program for new buildings for air route traffic control centers. We have installed or funded a total of 890 VORTAC's and terminal VOR's to provide navigation assistance to aircraft using the Nation's airways. The installation of long-range radars has been substantially funded, and future costs should be largely limited to linkage tying additional radars to our centers. We are also now essentially current in the installation of air traffic control towers, instrument landing systems, and approach light systems for those locations meeting high-activity criteria for

these aids. Funds will be needed for these purposes only when additional locations become eligible as the result of growth in aviation activity.

There are still gaps in the total system which remain to be filled. We must continue to develop and install more efficient and reliable systems such as those required to improve our landing capabilities under bad weather conditions. Our centers and certain of our towers urgently need automated systems for the display of radar data showing the location and altitude of aircraft. A significant portion of the facilities and equipment funds requested in this budget will be used to move ahead with the ground installations required for this important part of the national airspace system.

IMPROVEMENTS IN MANAGEMENT AND PRODUCTIVITY

The fact that the Agency expects to carry out its 1965 program with fewer positions than during the current year is largely attributable to the striking progress which the FAA has made in developing an effective management system, fostering cost consciousness at every level, and improving the productivity of individual employees by motivation of the individual, by improved administrative processes, and by the provision of technical training and better equipment for the traffic controller and the maintenance technician. During the period 1961 through 1963, the productivity of both air traffic control and systems maintenance personnel improved about 8 and 4 percent, respectively. We are expecting to achieve an improvement of 10 percent in employee productivity in these activities during the 2-year period, 1964 and 1965. It is the projection of these improvements in output per employee which makes it possible for the Agency to ask for a lower total position level in spite of workload growth.

Many of the positions to be eliminated during fiscal year 1965 are now filled by well-trained, competent people who represent our most valuable asset. To the fullest extent possible, we will reassign rather than eliminate competent employees, and thus avoid losing our investment in their training and experience which averages about $15,000 per technician. To the extent it is economical and in the public interest, these employees will be offered retraining, reassignment, and relocation to jobs where they can continue to make important contributions.

We have also been able to achieve additional savings by a number of specific reforms in our management and in our way of carrying on Agency activities. I should like to cite a number of the more successful efforts to conserve public funds which are reflected in the estimates before you.

(*a*) During the fiscal year 1964 our decentralization had progressed to the point where we were able to reduce our Washington headquarters staffing by 610 jobs, or aproximately 16 percent. The reduction was accomplished without increasing the number of regional personnel and will save the Agency about $5 million during the 1965 fiscal year. This saving reflected in this budget was a direct result of the improved efficiency resulting from placing in our regions operational authority formerly exercised in the headquarters.

(*b*) We have recently strengthened the management of the National Aviation Facilities Experimental Center at Atlantic City, N.J., and have instituted new staffing authorizations which produced substantial savings in manpower. The result has been a reduction of 248 in authorized personnel strength and an annual saving of $2.5 million per year.

(*c*) During fiscal year 1963 we combined our long-haul technical communications with those of the Department of Defense. These "telepak" arrangements have resulted in savings to the FAA of more than $6 million with further economies accruing to the Department of Defense.

(*d*) Several years ago the Agency was operating more than 460 flight service stations. Improvements in communications and technology have made it possible to reduce progressively the number of such facilities until there remained 335 at the end of the 1963 fiscal year. In the hearings on our 1964 estimates we stated our belief that there were opportunities to save money by further consolidations of flight service stations. In the report on the 1964 independent offices bill, your committee wisely asked that we take a further look at the number and cost of such stations. The Senate committee subsequently agreed with the House, and urged the reduction and consolidation of manned stations. We have done this and have recently announced plans to convert another 42 stations to an unmanned basis by placing them under the remote control of stations in other locations. These consolidations will reduce our requirements by 162 positions, of which

about 50 will be saved late in the 1965 fiscal year. Additional remotings and relocations will be announced in the future.

(c) Revisions in our supply and support system have eliminated centralized storage and redistribution operations for Alaska and Hawaii and have reduced inventory requirements for our aircraft maintenance bases. These improvements have produced savings of more than $900,000 in inventory stocks and about $300,000 annually in personnel, transportation, and storage costs.

The productivity improvements and the specific economy measures which I have described above are a tribute to the dedication of the employees of the Agency and their supervisors to the President's philosophy of frugality in Government. The FAA will always seek the funds required to render essential services to aviation and to buy and install the modern equipment required for the safe and efficient control of today's aircraft. We shall, however, continue every effort to make certain that no dollar is wasted and that the largest measure of benefit is realized from the resources entrusted to our care. The productivity improvements which we expect to achieve over the next 18 months will not be easily realized. We might even be asked if we should take the risk of asking the Congress for fewer positions than we now have authorized. My answer is that the record of the past 3 years shows what the Agency can do through improved management. We are convinced that what is necessary and urgent can be achieved within the limits of the estimates presented by the President. We hope and pray you will reward our thrift and candor with the full allowance of our request.

It is clear, however, that what the President's budget calls for is a minimum adequate figure both in terms of positions and money. Within the amounts requested, the Agency will be presented with a challenge, but one we will strive to meet. Any lower level would seriously jeopardize essential services by imposing on the Agency a requirement for productivity improvement beyond that which can reasonably be expected under even the most frugal and determined management.

I also wish to again remind the committee that the services rendered by the Agency are essential not only to civil aviation but also to the national defense. I should like to stress again the close relationship between the FAA and the military services. Almost a third of our traffic control effort is devoted to military flying. We are jointly sharing the output of more than 50 long-range radars. We are working closely with them in the procurement of communications lines to obtain the greatest operational flexibility at the most favorable possible rates for such services. By utilizing to the fullest extent possible the same air traffic control and navigation systems for both civil and military purposes we gain the utmost in total safety as well as higher cost efficiency.

Turning to the details of the estimates for 1965, we are requesting appropriations of $758.2 million as compared to $773.3 million authorized in 1964 for the same appropriations. The 1965 figures include the proposed supplemental of $75 million for grants-in-aid for airports. The comparisons exclude any provision for civil supersonic aircraft development in either year. Also included in 1965 is $7 million to complete the liquidation of contract authorization provided under prior Federal airport acts.

Agency position totals also show a decrease—46,357 positions for 1965 compared to the 47,111 authorized for 1964. Although the total budget reflects these decreases, provision is made for the operation and maintenance of new air traffic control and air navigation facilities authorized under "Facilities and equipment" appropriations of prior years and provides additional funds for employee pay increases authorized for 6 months only in the fiscal year 1964.

OPERATIONS

The estimate includes $549 million for the "Operations" appropriation, which includes the cost of the continuing programs of the Agency as well as the program direction and administrative support costs of the Federal airport program, the facilities and equipment program, and the research and development program. The 1965 estimate is $21 million higher than the 1964 appropriation. This increase is partly attributable to the expenses associated with the expected commissioning of facilities now being constructed under prior years' appropriations for facilities and equipment and partly to meet the costs of the January 1, 1964, pay increases authorized by the Salary Reform Act of 1962, and other salary adjustments made pursuant to law. Included are the funds needed to finance within-grade promotions and certain changes in the classification of air traffic

control positions, primarily to reflect the higher level of traffic being handled by our air traffic control centers and our busier towers.

The cost of operating and maintaining the new facilities added to the air traffic control and navigation system is substantial. Many new equipments and installations are being installed from funds appropriated in 1964 and prior fiscal years. As they are readied for use the Agency must provide for their operation and maintenance, for essential supplies, and for utilities. These unavoidable expenses must be met if new facilities are to be commissioned. The feeling of the committee against requesting funds for annualizing the costs for new facilities is recognized and respected and we are requesting no additional funds for this purpose. We are making offsetting reductions to compensate for the continuing costs of the added facilities. While it is true that outmoded or unnecessary facilities are constantly being removed from the system, it is doubtful if the savings from decommissioned facilities will ever offset the cost of new additions to the system due to the increasing complexity of new equipments. Therefore, we are striving to minimize increasing costs by every economy measure we can devise consistent with the maintenance of an adequate level of safety and efficiency in aviation.

We have the responsibility for reliability of 24-hour service and the potential liability that goes with such responsibility. At yearend 1963 we had 371 suits pending against the Government for total claimed liability of $153.6 million. Since we were last before your committee, about half (57) of the suits arising out of the 1960 New York midair collision have been settled, but the remainder (52) involve substantial exposure from this one accident wherein the Civil Aeronautics Board found the probable cause did not rest upon FAA but with the operation of the aircraft. Unless we advance our system of safety with improved personnel and modern equipment our liability in such cases can be enormous.

FACILITIES AND EQUIPMENT

We are requesting $75 million for the facilities and equipment appropriation, which is $25.2 million less than the amount appropriated for fiscal year 1964.

The bulk of this appropriation—$65.5 million—is for the procurement and installation of new equipment required for the improved utilization of the national airspace. The largest single item is $40 million for equipment that will electronically display the identification and altitude of aircraft on radarscopes used by traffic controllers. This is a major step in the installation of the equipment called for by the Project Beacon report of 3 years ago. By the use of this equipment we expect to improve significantly the effectiveness, safety, and reliability of the air traffic control system.

Approximately $2 million is included in the estimate for the purchase of light, twine-engine aircraft and to buy equipment used in the conduct of facility flight inspections. Another $7.5 million will finance the second stage of the modernization of the National Aviation Facilities Experimental Center. Last year the Congress approved $5 million to permit the Agency to initiate a program for the replacement of inadequate facilities constructed more than 20 years ago.

As I indicated earlier in my statement, we have been able to achieve a significant reduction in the level of this appropriation in 1965, first, by a reevaluation of projects previously approved and, second, through completing the funding of certain major portions of the air traffic control and navigation system. Whether this lower level of apropriation will suffice in future years is doubtful, but the actual requirements in the years to come will depend heavily upon the progress made in the research and development aimed at the increased automation of the air traffic control system and other improvements. The $65.5 million requested for air navigation and traffic control equipment amounts to only about 5 percent of the value of assets in place in the national airspace system, and this seems to me a most conservative level considering the rapid change in aviation technology.

RESEARCH AND DEVELOPMENT

The estimate includes $42 million for the research and development appropriation, an increase of $2 million over the amount appropriated for the fiscal year 1964. The Federal Aviation Agency must engage in research and development activities since aviation is a dynamic industry largely dependent upon advances in technology. FAA is responsible for the national air navigation and traffic control system and as such the Agency is charged with the efficient operation of this system and the assurance of safety in flight. We are obligated, therefore, to

assure that our system keeps pace with the national defense requirements, the aviation industry, and the state of the art. We must assure ourselves that the aircraft, the men who fly them, and the operators of the airspace system meet the standards set by the Congress, the Federal Aviation Act and regulations.

As in the past, more than half of the total amount requested will be directed toward projects designed to improve the air traffic control system. As indicated in the preceding discussion of the facilities and equipment program, the successful development of electronic equipment under the research and development program has paved the way for a major step in the implementation of a more effective and efficient airspace system.

Future efforts will be devoted to developing equipment needed to permit more flexibility in the display of radar information, the automatic prediction of conflicts in flight paths, and the performance of other services designed to relieve the individual traffic controllers of manual computation and leave them more time to make the critical decisions which cannot be done by machines.

More effort will be directed to the development of equipment which will permit landings and takeoffs under near zero visibility conditions at major airports throughout the Nation. Other projects will be aimed at the development of lower cost landing aids for smaller airports and improvements in the accuracy of existing instrument landing system components. Success in these projects will not only significantly improve the reliability of aircraft schedules and eliminate many costly flight postponements, cancellations, and reroutings due to weather, but will increase safety under all bad weather conditions.

About $1.5 million is requested for research in communications and display techniques for weather information needed by the air traffic control system. The estimates also include $5 million for an aircraft safety program. This program will point the way to improved safety standards of aircraft construction and operation, as well as to new developments in vehicles and components. This program includes efforts in fire prevention, crash impact survival, improved noise criteria, and lightning protection. The $1.8 million for aviation medicine will finance exactly the same number of employees approved for the 1964 program and will support long-term projects begun in prior years.

The total research and development appropriation amounts to less than 6 percent of our budget estimate, and is less than 4 percent of the value of the capital plant operated by the FAA. We are convinced that the appropriation requested is the minimum research and development level required to keep the airspace system and aviation safety abreast of the needs of an expanding industry. The level of effort appears reasonable in comparison with amounts expended by industrial ventures engaged in expanding technological fields.

GRANTS-IN-AID FOR AIRPORTS

Because the Congress has not completed action on legislation extending the Federal Airport Act, as amended, no funds have been requested at this time for grants-in-aid projects for the fiscal year 1965. As indicated in the President's budget a request for funds for both the 1965 and 1966 fiscal years will be forwarded upon passage of the pending bill, thus preserving the forward-funding principle established by the Congress in 1963. We are requesting $7 million to complete the liquidation of obligations incurred under the contract authority authorized for the grants-in-aid program through the 1962 fiscal year. This money will thus be used to pay bills which constitute legal obligations for the Government.

OPERATION AND MAINTENANCE, NATIONAL CAPITAL AIRPORTS

The estimate includes $3,631,000 for "Operation and maintenance, Washington National Airport"; and $4,619,000 for "Operation and maintenance, Dulles International Airport." The estimates for WNA would provide for the operation of a new sewage pretreatment plant and a new centerline lighting installation on the major north/south runway. An additional 29 positions are included for DIA, principally for maintenance and operation of new buildings and for services being conducted for the first time in fiscal year 1965. In addition, the completion of DIA and its becoming fully operational requires a shift in the allocation of costs of consolidated functions between the WNA and DIA appropriations. A corresponding shift of funds is reflected in the estimates. These functions include overall airport direction, accounting, payroll, procurement, engineering, and other services performed on a common basis for both airports in the interest of economy and efficiency.

CONSTRUCTION, NATIONAL CAPITAL AIRPORTS

The budget provides $1,800,000 for the replacement of hangar No. 10 at WNA. The old hangar is designed in such a way that its usefulness in handling modern aircraft is limited, with the result that its earning capacity is sharply limited. The new hangar will be self-supporting over its useful life and will produce a net revenue to the Government. An additional $200,000 is being requested for financing improvements at DIA of internal roads used for emergency vehicles, snow removal, police patrol, and similar purposes. Present unfinished roads need a hard, all-weather surface for proper utilization.

CIVIL SUPERSONIC AIRCRAFT DEVELOPMENT

In accordance with the plan previously discussed with the committee for the development of a civil supersonic aircraft, no funds have been requested for fiscal year 1965, pending completion of the detail design phase. We are now evaluating design proposals from three airframe manufacturers and three engine manufacturers. If the results are sufficiently promising, we expect to let contracts for a detail design competition in accordance with the schedule previously established. These contracts would be financed by the $60 million appropriated for this purpose for the current fiscal year. The timing and amount of the next appropriation and, indeed, the necessity for the next appropriation, will be determined on the basis of the design evaluation and the outcome of the detail design studies. We do not foresee a need for additional appropriations during this session of Congress, assuming that, if necessary, very early action by Congress can be accomplished next session.

USER CHARGES

The President has again recommended legislation to require the users of the airspace to pay a larger share of the cost of the Government's aviation programs. The proposed taxes on air freight, passenger tickets, gasoline, and kerosene used in aviation would recover approximately one-third of the total cost of operating the airways. If the cost of services to the military departments is eliminated from the calculation, the user charges recommended by the President would bring in revenues approximating one-half the cost of air traffic control and airways services. As in the past, we strongly support this legislation and believe it is a good principle that the direct beneficiaries of special services should pay a larger share than the general taxpayers.

SUMMARY

Last November 1, the FAA observed its fifth anniversary; 5 years after the Congress established the Agency at a time which might have become—had you not acted so decisively—a full crisis in air transportation. These were five "high boost" building years; expensive, sometimes contentious, but productive years. There was nearly a decade of technological foot dragging on modernization of the Nation's airways to make up for, while at the same time, trying to keep ahead of the jets, which were then beginning to streak the high altitudes.

With the money and men you made available to us during this building period, we have very nearly completed the foundation—the centers, towers, long-range radars, the navigation and communications subsystems—the expensive base of the national airspace system. The men, and women, who came to us in great numbers in those years have matured in their technical skill, their management capacity and philosophy, their determination to use intelligently, and in the broadest public interest, the resources entrusted to them.

The tense, catchup, hurry-up days are mostly behind us. Safety and traffic volume records for the last 3 years show that the threat of full crisis is abating somewhat too. We are moving steadily into the Agency's next stage of development—getting set for the long pull. It is this that permits us for the first time to come before you and ask for less in both money and men than we asked the year before.

Perhaps it can be thought of as the beginning of a jet flight. Five years ago it was like a jet thundering down the runway, full throttle, everything pulling to get airborne. We got off because you gave us what we needed.

Up came the landing gear, the flaps. The jet was steadier, stronger on its wings. We swung around to our true course and kept climbing on out.

The Agency still has a long way to go in this era of changing traffic and technology, but we're now able to throttle back, conserve fuel, to travel fast and far, and at peak efficiency. The budget request before you reflects what has been accomplished in 5 years, our position now, and what we believe we must have for the job ahead. It reflects careful study and precise setting of the controls—as lean as we think we can pull it and still stay on course, and on time.

Mr. HALABY. I will try to hit the highlights. That will enable you to get to your questions as soon as you wish.

We have an investment of about $15,000 per technician in our people and after 5 years, I think it is fair to say that the Agency thinks that these individual men and women who have been trained and motivated and are learning more and more about management and how to be managed, and, in particular, getting some ideas about cost consciousness and output per day per man, are the real heart and guts of the agency.

REDUCTION IN WASHINGTON HEADQUARTERS STAFFING

As we told you, during the fiscal year our decentralization had progressed to the point where we were able to reduce our Washington headquarters staffing by 610 jobs, or approximately 16 percent. This reduction was accomplished without increasing the number of regional personnel and will save the Agency about $5 million during the 1965 fiscal year.

Mr. JONAS. May I interrupt there?

Mr. HALABY. Yes, sir.

Mr. JONAS. Did you do that by attrition, or did you actually let anybody go?

Mr. HALABY. I was just coming to that, sir.

Mr. JONAS. I beg your pardon.

Mr. HALABY. We did it by combination but the largest bulk of the induction was by transferring Washington headquarters people into regional and field facility vacancies so that the total number of positions eliminated was 610 and the total number of people actually eliminated was much smaller because many of them took the jobs in the field.

Some of them refused the jobs in the field and went with other agencies and finally there was some retirement and transfer elsewhere.

PERSONNEL TURNOVER

Mr. JONAS. What is your turnover rate agencywide?

Mr. HALABY. Our turnover rate agencywide I guess is about the lowest in the Government. It is about 9 percent.

Mr. JONAS. We had an agency in here the other day who claimed to have the record on that.

Mr. EVINS. I believe you refer to the Selective Service System.

Mr. JONAS. Government-wide the rate is about 14 percent.

Mr. HALABY. Maybe I should say, the lowest for a large agency.

Mr. JONAS. Government-wide the rate is about 14 percent this year. Last year it was 16 percent.

Mr. OSTERTAG. That is right.

Mr. HALABY. We have the lowest rate for a large agency. I have a table that the Assistant Administrator for Personnel and Training has worked up that shows that for Government-wide it is 20.6 percent for

fiscal year 1963 and for our agencywide it is 9.1 percent. In some categories we are down to——

Mr. JONAS. That 20-percent rate is the highest rate we have heard stated in here. The Civil Service people told us it was about 14.

Mr. OSTERTAG. What does this transfer have to do with your training program? Doesn't that reduce your training requirements?

Mr. HALABY. The reduction of personnel generally has the effect of having fewer people to be trained, but the technological changes in the system, with more radars, more computers, more displays, require the people in the work force to be retrained and their training upgraded.

I wanted to just mention a couple of other turnover rates, Mr. Jonas. For example, in the field of electronic technicians the turnover rate is 3.6. In the aircraft operations it is 2.2.

Among our flight standards inspectors it is 2.4. Among all air traffic controllers it is 3.7.

Of course, part of this is that this is a kind of work——

Mr. JONAS. You are not competing with industry?

Mr. HALABY. Yes, sir. It is highly specialized.

Mr. JONAS. And the salary scale is higher on the average?

Mr. HALABY. It is higher than the military and since there isn't anything to compare with in civil, that accounts for that very low turnover.

I won't claim it is entirely because we have better management or better morale or you have given them adequate appropriations——

Mr. EVINS. Proceed, Mr. Chairman.

SAVINGS BY REDUCTIONS IN POSITIONS

Mr. HALABY. I think those factors bear upon it, so in explaining to you that we have achieved this 16-percent reduction in headquarters positions, I also wanted to point out that we accomplished it in a rather unique way. We did not have to go to the ruthless and arbitrary reduction in force whereby people are just separated willy-nilly, despite their great capacity for particular work. We also avoided the use of this technique with regard to our center consolidation program in which a total of 700 positions was involved, and that is, of course, a continuing program.

We have reduced the authorized personnel strength at the Atlantic City Experimental Center by 248 and saved $2½ million per year there. Largely through the efforts of General Grant and Mr. Dean and Mr. Provan we thought up the idea and worked it out with Defense to combine our long-haul technical communications, the communications with our centers and towers and radar facilities and by telpaking, we have achieved with Defense $6 million of savings and, of course, the telephone company is that much lighter, you might say.

CURRENT EMPLOYMENT LEVEL

Mr. EVINS. Do you want to give us one wrap-up figure of the actual number of fewer on board than you had at this time last year?

You have had some transfers and reassignments. You have created some new jobs. Some people have resigned. Others have retired. Can you give us a wrap-up figure as to the number of employees less this year than last year in all of your operations?

Mr. HALABY. The number of bodies since a year ago is higher at the present time because you authorized additional personnel to man the incoming new facilities.

Now, what are the figures? From June 30, last year, we are down from 44,447 to 44,223 in full-time employees. The figure for February 1963 was 43,905.

Mr. EVINS. You say there is a 754 reduction in positions.

Is that really an accurate picture of the situation?

Mr. HALABY. We are talking about fiscal year 1965, positions appropriated for, 754.

You asked for how many people actually were on board.

Mr. EVINS. What is the number of positions reduced?

Mr. HALABY. Let me give you two figures, sir. One, the number of actual full-time employees, June 30, 1963, 44,447; the number of employees actually employed by FAA on January 31, 1964, 44,223, a decrease of 224.

The number of full-time positions authorized and programed for those same dates, June 30, 1963, 45,935 and 46,600 as of January 1964.

Now, we were going on to projections of the yearend 1964 to some 47,111. We are now stabilizing at the figure in this budget, which is 754 positions less than you authorized for 1964. Those are full-time positions.

Mr. JONAS. That is less than 45,945?

Mr. HALABY. No, sir. That is 754 less than authorized for 1964.

Mr. JONAS. That was 45,945.

Mr. HALABY. Currently, fiscal year 1964, which was what——

Mr. JONAS. 45,935.

Mr. HALABY. No, sir. That is what we were authorized as of June 30, 1963. The number we were authorized for the full year, fiscal year 1964, is 47,111, and we are now asking for 754 positions less than that.

Mr. OSTERTAG. It is less than the 47,000——

Mr. HALABY. 111.

Mr. OSTERTAG (continuing). 111. That was your top figure for 1964.

Mr. HALABY. That you appropriated for, yes, sir.

Mr. OSTERTAG. What will be your yearend strength at the end of fiscal year 1964? You are phasing down even in 1964, are you not?

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. That is the point I think that is important.

Mr. HALABY. That is the point I was trying to make. We have less actual employment and we have less authorized employment in fiscal year 1964 than we were permitted by this committee last year. So we have got an actual position decrease and an authorized position decrease.

Mr. OSTERTAG. There is a difference, too, between average employment and yearend strength.

Mr. HALABY. Exactly

Mr. OSTERTAG. My point is, What will your average employment be in fiscal year 1965, beginning July 1?

Mr. EVINS. Average employment.

Mr. HALABY. Average employment for fiscal year 1965.

Mr. ALEXANDER. The major item is the operations appropriation—about 90 percent of the total.

Mr. OSTERTAG. Would you furnish that for the record?

Mr. ALEXANDER. For fiscal year 1964 it would be 41,400, about——

Mr. OSTERTAG. Average?

Mr. ALEXANDER. Average. This is the operations appropriations alone.

Mr. OSTERTAG. That cannot be right, can it?

Mr. HALABY. He wants all appropriations. We do not have the number for all appropriations. We will get it. Let me approximate it, sir. The total authorized for fiscal year 1964 was 47,111. We will not reach that by our own management action. The level which we will not exceed is 46,400. That we would not exceed during the year so the average employment will be between 46,400, which we seek your authorization, and 44,223, which we actually had in January.

Mr. JONAS. You are asking for fewer people than were authorized last year, but for more people than you actually had.

Mr. HALABY. Yes, sir.

Mr. JONAS. So you should wind up with a substantial unobligated balance in June. You were authorized to fill 45,935 positions.

Mr. HALABY. We were authorized that many positions and, as you know, we fill them as the need for the position arises and positions authorized have always exceeded during this period the number actually employed because we phase them in as the equipment becomes available, so what we are asking you to do is to authorize the positions we need, which are 754 less than you found we needed last year and to permit us to employ in a phased program basis up to the number that you have authorized.

In the past, as we have showed with that chart yesterday, we have always been expanding. Now we are consolidating. For the first time the positions authorized will match the positions employed within the regular normal governmental margin.

For example, in January, when I gave you the figure of 44,223, there were 257 commitments that were being processed by the personnel people. We estimate that on June 30 we will have about 45,210 people actually employed.

Mr. ALEXANDER. Occupying full-time positions.

Mr. JONAS. Authorized 47,111 people.

Mr. ALEXANDER. The 47,111 figure is not people, it is positions.

Mr. JONAS. You are asking for 754 fewer positions, or 46,357 positions; is that correct?

Mr. HALABY. Yes, sir; 46,357.

Mr. OSTERTAG. There is a difference between positions and the total employment?

Mr. HALABY. Always; yes, sir.

AVERAGE EMPLOYMENT

Mr. OSTERTAG. I was trying to get at what your average employment will be as compared with what your average employment was a year ago.

Mr. HALABY. We started at 44,447 at the beginning of fiscal year 1964. We are programing to go to 45,210 at the end of fiscal year 1964. So the average was between 44,400 and 45,200, which, if you take the middle number would be 44,850.

We now propose to start with 45,210 at the end of fiscal year 1964, the beginning of fiscal year 1965, and go up to 45,290 people on board.

Mr. OSTERTAG. At the end of fiscal year 1965?

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. How do you arrive at your average?

Mr. HALABY. The average doesn't mean anything, Mr. Ostertag.

Mr. OSTERTAG. I think the average employment would be the basis of what your requirements are.

Mr. HALABY. All we can give is the beginning and the end. The average would be hit in accordance with the day somebody came on board.

We can give you a computed average. For example, in the summer it rises with some summer employees. In September it dips, with some of those people off the rolls.

Mr. OSTERTAG. You don't budget on this highest point of your employment; do you? You don't budget on the basis of the end strength. You ought to budget, I should think, on the basis of what the average number is going to be during the year.

Mr. ALEXANDER. That is correct.

Mr. OSTERTAG. Is that how you have budgeted?

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. Then why can't you supply it?

Mr. HALABY. What amount do you mean? This chart shows end 1963, beginning the last half of calendar year 1964. It shows, sir, that the line goes from 44,447 down to 44,223, up to 45,210 and across to 45,290, in actual employment. It shows that the authorized positions went from 45,935 to 47,111 at the end of fiscal year 1954 and then descends to 46,357 in authorized positions. So we have it charted out but when you say "average" it throws me a little as to what you want, whether you want halfway between any one of these figures or in any particular month.

DIFFERENCE BETWEEN AUTHORIZED POSITIONS AND ACTUAL EMPLOYMENT

Mr. JONAS. It seems to me we authorized more positions than were filled and therefore we ought to take a look at that and make some substantial reductions this year.

Mr. DEAN. I might clarify two things, Mr. Jonas. When we were rescheduling the actual employment during the current year, 1964, we took into account the month the appropriations bill was available and what our employment was at that time, and therefore the new schedule reflects the reductions and adjustments in our 1964 appropriation. So we did, for the most part, adjust all of our employment levels to take into account actual money and actual average months that employees would be on board.

What we have given you for 1965 is our projection of employment and the funding in the budget is only for the positions that we expect to be filled. We do not ask money for all of the authorized positions, only the number we think can actually be filled.

Mr. OSTERTAG. Certainly, and that would be the basis on how you arrived at your averages between your end strength and the point at which you started, plus the lapses that take place by virtue of unfilled positions. But what you actually need in terms of dollars certainly shouldn't be predicated on the total number of positions that are in existence at the beginning of the year, it shouldn't

be predicated on what the end figure might be. It seems to me if you have budgeted properly, according to what would be your requirements, it would be on the average strength and your total dollar requirements to meet it during the course of the year.

Mr. ALEXANDER. This is precisely how we budget. These position figures are complicated in these 2 years because of the definition of a position that guides the whole Government budget presentation, and that is, as the job is filled anytime during the year, it is shown as a position. For example, the 47,111 include the 860 jobs that were vacated in Washington and Atlantic City during the year, and as of midnight July 1 they would drop out of the total.

There are hundreds of jobs in the 46,357 at the end of 1965 in the same category. The average employment or the man-years are calculated and remain, in total, fairly steady between the 2 years.

Mr. JONAS. I am confused now.

As I understand it, you had on board on January 30, 1964, 44,223 people.

Mr. HALABY. With 257 coming in.

Mr. JONAS. You are proposing to increase that next year by 2,134, or up to 46,357. Am I correct?

Mr. ALEXANDER. No, sir.

Mr. HALABY. Now let's stick to actual employment, because that is what that is. We propose to have 45,210, on June 30 of this year, and 45,300 on June 30 of next year. We are requesting that you authorize a total position level of 46,357.

Mr. JONAS. Even your projection of people you expect to have on board at the end of this year, which is 45,210, is substantially up from 44,447, on June 30, 1963.

Essentially, what I am trying to determine is, if my suspicion is correct, that you are going to have more people employed in the Agency at the end of this June than you had at the end of June 1963.

Mr. ALEXANDER. Mr. Jonas, during the fiscal year 1964 we were authorized the commissioning of new air navigation facilities and the takeover of aircraft movement information service. This is the reason for the buildup from June 30, 1963, to June 30, 1964.

Mr. OSTERTAG. But there has been a buildup.

Mr. ALEXANDER. It was included in the fiscal year 1964 appropriation.

Mr. JONAS. Seven hundred and sixty-three more?

Mr. ALEXANDER. We justified to the committee last year 1,030 new jobs for the new programs. Three hundred of them were for this AMIS function and 600 for new facilities. This is the reason for the buildup during this fiscal year. Until January 1, because of the continuing resolution, the late passage of the appropriations, we could not hire to achieve any net increase in the people, so our buildup, sir, is limited to the last 6 months.

Mr. JONAS. But you tell us in another place you have a decrease of 750.

Mr. ALEXANDER. Authorized positions.

Mr. HALABY. That is the appropriations and the number of other people you authorized us. No agency is ever right on the numbers you authorize and appropriate for, because it goes up every few hours.

Mr. ALEXANDER. We budget in any event——

Mr. JONAS. Let's get that clear. The reduction to which you refer of around 700 is reduced requested authorization?

Mr. HALABY. Exactly.

Mr. JONAS. But you don't intend to tell the committee that you will have fewer people employed at the end of the year than you had last year?

Mr. HALABY. No, sir.

Mr. JONAS. The contrary is true, you will have more.

Mr. HALABY. Yes, sir.

We do intend to say that between October and January we had a reduction in actual employment, though, and that was due to dropping the 850 positions and several hundred full-time employees during that period.

I might also point out, sir, that the difference between actual and authorized reached a peak in about February 1 of this year. The difference was between about 44,223 and 46,600.

That was a difference between actual and authorized of 2,350 positions. It will reach the lowest in, I believe the history of the agency——

Mr. EVINS. Oh, no.

Mr. HALABY (continuing). On June 30, 1965. This is the gap between actual—the lowest gap between actual and authorized, of 1,067 on June 30, so we will have halved the difference by the end of this year. All that shows is, instead of going up, the agency has now leveled off and is consolidating these at a lower figure.

Mr. JONAS. I have the wrong figures down if you are leveling off. You are going up. You explain it by saying that you had additional responsibilities, but still you are going up and I don't see how you can have a chart to show you are going down.

Mr. HALABY. We are talking about two different things. Actual employment—here we are going up a little.

Authorized positions for what you have appropriated, are coming down.

Mr. JONAS. I accept that; and it shows we have been authorizing too many.

Mr. EVINS. The difference between actual employment and authorized has been rather wide over the years.

Mr. HALABY. Yes, sir; for a rapidly expanding agency.

Mr. EVINS. When you tell us you are tightening the gap, you are tightening the belt between authorized and the actual positions filled?

Mr. OSTERTAG. Mr. Chairman, as we get into the justification I think probably it will unfold a little bit.

Mr. EVINS. He is giving us an overall picture, and we will break it down into separate operations.

Will you proceed now, Mr. Administrator?

CONSOLIDATION OF FLIGHT SERVICE STATIONS

Mr. HALABY. The next highlight I would like to touch on is the flight service stations and I am going to show a couple of charts, here, that indicate the situation.

Some of you have actually been in the flight service stations.

Back in 1950 there was a total of 460 of these flight service stations. At that time, the aircraft fleet was composed of DC–3's, DC–4's, DC–6's, and a large number of smaller aircraft, but a reduced number of small aircraft.

Our system, as Mr. Thomas will point out in a moment, was largely four-course ranges and two-way, frequentally low frequency air-to-ground, ground-to-air communications. By 1963, a total of 335 of these stations were operating. At the same time we had modernized and equipped with wider ranging communications a large number of centers and combined radar approach and departure control and in some cases combined tour and service stations. We were giving more communications with fewer facilities that were of a more complicated and modern nature.

We now foresee the day when we can reduce the number of these flight service stations by consolidating their services with adjacent stations and actually ultimately perhaps with some of the centers.

Now, the result is that we have announced within the last 2 weeks a list of 42 flight service stations that are to be converted in the following manner:

In the past a pilot, more often than not a private pilot, because the airlines use the telephone, rather than our counter service, he would drive to what we call a flight service station. It is often in the terminal near the Weather Bureau and he would go there, and there is usually a map and there are some documents and there are weather reports on the teletype and there is a man there who will take a written flight plan. So he gets flight briefing and files a flight plan. He then goes out and gets in his airplane, usually on the same airport, and takes off, and he talks to the flight service station through a voice line from that device we showed you in the other room yesterday, the VORTAC. He doesn't know where that station is, really, because all it is, is a voice to him. As he goes over one station he says, "What's the weather at the next station?" Then they give it to him.

If he is on a flight plan he says:

I am now reporting on an IFR flight plan from A to B. I estimate to be over B at such and such a time.

That is prior to the consolidation. There are two stations. There are two VORTAC's and the man goes to the counter if the station isn't in his town.

Now he has grown to enjoy that crosscounter service. About 1 out of 10 contacts are across the counter, face to face. He likes those fellows because they are usually neighbors of his. He likes to feel that he has a Government station in his town. The airport operator and the airport manager very much enjoy having that Federal facility there. It helps them in many ways.

Also, there is a payroll involved, anywhere from 5 to 50 people are on the local payroll in this city where the flight service station is located.

What we now propose to do and have been doing for years at a sort of an easy rate, is to say to this man, now, "We are moving your flight service station in your town over to another town. We are consolidating. We are going to give you the same service, except we are not going to give you the personal, across-the-counter contact."

So we say, "We will set up a special telephone line at your airport. Instead of going into a Federal facility that is rented and lighted with a lot of equipment maintained each year, and 8 to 15 or so people, we are going to put a telephone in. You go into the booth, call over to this station and get the same information. Instead of writing out the flight plan, talk it out with him." That is what we call consolidation.

Mr. OSTERTAG. Where is that telephone located? At the airport?

Mr. HALABY. Yes. The same airport where he used to walk into the FAA office. He now walks into a telephone.

Mr. OSTERTAG. There is a direct line?

Mr. HALABY. Yes.

Mr. DAVID THOMAS. In some of the cases they are going into the large cities but most, I think, are not, really. Toledo, Wash., is going into Portland; Ely, Nev., into Elko, Nev.; Imperial, Nebr. into North Platte.

Some of these larger ones that are going in, just on the reverse, is Rochester, Minn., going to Minneapolis; Jackson, Mich., to Detroit; Bluefield, W. Va., is going into Charleston.

Mr. EVINS. Wouldn't it be a safe thing if you were flying into Detroit, to have communication at Jackson, Mich.?

Mr. DAVID THOMAS. You will have the same communications. The air-ground communications will be identical.

ESTABLISHMENT OF FLIGHT SERVICE STATIONS

Mr. OSTERTAG. What is your criteria for establishing these stations in the first place? Are there areas where there are no airports or then are long distances between aviation facilities? Why were they established where they are in the first place?

Mr. DAVID THOMAS. The criteria was principally to have air-ground coverage over the airspace and along the major routes, and originally to be associated with the air navigation facilities which were the old low frequency facilities.

It was cheaper at that time—in fact, the only way we knew then—to assign a man to a microphone at that facility in order to get the voice out from that point on the surface to cover the airspace.

As landlines and other communications have become more economical and more available and salaries have gone up—this is generally true in all walks of life—we can provide precisely the same communications from the same spot on the surface of the earth to cover the same volume of airspace by consolidating several of these locations at one desk.

A lot of the 24 hours of the day at some of these locations, they only talk to two or three airplanes. Yet we still have a man there. We could run five or six lines into a single center, to a central desk, and have him talk over all these radios and keep him reasonably busy and a much more efficient operation.

In fact, it is more efficient because he knows more of the weather, he knows more of the aircraft, and he has a wider range to cover.

Mr. HALABY. For purpose of illustration, let's say this is in Elko, Nev., and this is in Ely, Nev. I forget the exact distance, but my hunch is it would be around——

Mr. DAVID THOMAS. Most of them are less than a hundred miles. About 200, out there.

Mr. HALABY. 200 miles. In the old days this man on his mike here could only reach this pilot a few miles on either side of the station, so there was no communication at all for perhaps 150 of the miles between the stations. Now, through the VHF technology and through our new ability over the landlines to have a remote transmitter—in other words, the transmission is from here, although the voice in the microphone is over here, and we can say the same words on the same frequency from here, 250 miles away, as was done from the original location. In a sense this is just automation.

Mr. BOLAND. The same information is available and the service is exactly the same?

Mr. HALABY. Yes, except there is no across-the-counter service for certain locations. He cannot go in and talk to him as though he were the druggist or a friend.

Mr. OSTERTAG. You spoke a few moments ago about reports advising pilots on weather and other conditions. How can the second station, which is some 100 miles or 200 miles beyond give a pilot advice or reports on conditions or circumstances behind him or even in front of him for that distance?

Mr. HALABY. That is a very important point, because in many of these stations that we have already closed, and some 30 more, there is both a Weather Bureau station and an FAA station. So we have had to coordinate very closely with the Weather Bureau so that we wouldn't move out and they would move in. That would be no economy. That weather is put on a teletype by the Weather Bureau and comes out on one teletype, here, instead of a teletype at each location.

Now, just to give you an idea of what I have been shooting for, here, can we estimate how much each of these calls cost the taxpayers?

Mr. DAVID THOMAS. Each one right now costs the taxpayer about $2 or $2.50.

Mr. HALABY. $2.50 per radio contact from the pilot to the station, and the pilot isn't paying anything for it.

Mr. OSTERTAG. This is radio. What makes up that cost? Isn't it just the instrumentation?

Mr. HALABY. The cost includes the hundreds of people managing the stations, it is the rent of the building——

Mr. OSTERTAG. You are talking about the cost of all of the personnel involved. You are not talking about the actual cost of the call?

Mr. HALABY. No, sir. That is in cents, but the total cost of being able to make the calls, day after day, year after year.

Some of my feathered brethren say that I am a traitor, that the taxpayers ought to provide that $2.50 call for free because it enhances their convenience and safety. I am just saying, "OK, you ought to have a call for safety purposes, but you don't need to have one from so many places."

Mr. OSTERTAG. Are you satisfied that this move and these changes will in no way impair safety?

Mr. HALABY. Yes, sir. The one meritorious objection is that there are pilots who like to go and talk across the counter for

sometimes half an hour before they decide whether to take off or not, and they won't be as thorough in their preparations from this telephone booth, here, as they would from across the counter with the man—some of whom have been there 15 or 20 years——

Mr. EVINS. Isn't that a laudable objection? Isn't that bona fide? Doesn't that have some merit?

Mr. HALABY. It does; yes, sir. The question is, actually, whether it overpowers all the other arguments.

Mr. EVINS. If you consolidate a station you will have a teletype tape saying, "The weather is good, today. OK." You could play a record for them, so you have no employees at either place. This is an extension of automation.

Mr. OSTERTAG. Actually, you can pick up the telephone now and get the weather report.

Mr. HALABY. Yes, sir.

Mr. WYMAN. Did you discuss this program with industry representatives before you determined what locations to assign a priority to for discontinuance in the sense of taking the list of 42 and going over each site and location?

Mr. HALABY. Mr. Wyman, the answer is "No." We are continuously in contact with the various aviation interests and we try to take their views into account as well as the views of the Congress, but we felt the moment we mentioned a particular location, two things would happen: One, our own employees would go into a state of confusion and in some cases shock about an impending relocation and change in their family life, and second, all of the people in both the cities involved, the city getting additional Federal employees would receive it favorably; the one losing Federal employees would receive it unfavorably.

Mr. JONAS. It should be said right at this point that the system is not designed for airline use, but for individual airplane operators, is that not correct?

Mr. HALABY. To a considerable extent that is correct, although the airlines do call in to this radio for a particular weather report or something else, particularly when they lose contact with the center.

Mr. JONAS. I mean this over-the-counter discussion.

Mr. HALABY. Only in a few local service airline cases does the airline pilot go into the counter. That is very rare. He has his own airline weather service, his own airline dispatch service for which he is paying, and passing on the cost to the traveler.

Mr. EVINS. This is a program of making the big bigger and the small smaller. I am against the whole trend.

Mr. WYMAN. Mr. Chairman, are you going to leave this subject at this moment?

Mr. EVINS. I think not.

Mr. WYMAN. Could I ask a couple questions?

Mr. EVINS. Yes.

NUMBER OF FLIGHT SERVICE STATIONS AFTER REDUCTION

Mr. WYMAN. How many will you have after the latest reductions, Mr. Halaby?

Mr. HALABY. After the latest reduction of 42 in the domestic United States, we will have 257—I am talking about domestic United

States. There are only 299 in the domestic United States. There are 36 outside the 48 States. It is 257 in the domestic United States, and 293 worldwide. Some of these are in places like Balboa and the Canal Zone; San Juan, P.R.; Charlotte Amalie, V.I.; Alaska; and other places.

Now, we haven't a list for the ultimate number. We are still debating that within the Agency. We have to work it out with the Weather Bureau because we don't want to reduce available weather services, but if the Weather Bureau—if the committee would support us as it directed us, or let's say "urged" us in its last report in which the Senate shared, we would, on a gradual deliberate basis, trying to avoid the danger you see, Mr. Evins, of making the big bigger and the small smaller, to the extent that we can, we would like to proceed with, not the total automation of these systems——

SAVING DUE TO CLOSING FLIGHT SERVICE STATIONS

Mr. EVINS. Mr. Administrator, you have indicated this has been before this committee several years and it has been in the report and I have expressed my own personal views on it before, but let's not make it a crash program. Use a little flexibility.

You have indicated that even the funding is relatively small in the matter. There are some major areas of your operations in which you could really save some money, some big money; millions of dollars. But you choose to go at great length on the small items.

Mr. BOLAND. It may be small for the first year, but it is not small over the long haul. I believe you said $3 million a year into perpetuity.

Mr. OSTERTAG. Do you have a breakdown of the savings? I realize, too, as Mr. Boland has just indicated, that the difference will not take place overnight, that there is a matter of phasing the consolidations and transfer of personnel, but have you any estimate of what the ultimate savings might be based on your present program?

Mr. HALABY. Proceeding from the present where we are consolidating 42 stations and eliminating 162 positions as is reflected in the budget before you, after absorbing the relocation costs, the net annual savings is $1,800,000. So if we doubled——

Mr. EVINS. The saving is not in the staff in Washington, not in some of the other operations, but it is in reducing employment in these small stations. This is where he has made his savings. This is where he has been able to show some reductions in his staff.

Mr. HALABY. I am sorry, Mr. Chairman, the biggest reduction has been in Washington, where we have transferred positions into the field, so the big is getting smaller in that case.

We have taken a 16-percent reduction in the number of headquarters positions and put those people in vacancies in the field.

The total amount, if we went on, Mr. Evins, to close 40 more——

Mr. EVINS. Close some, Mr. Administrator. Use your good judgment and use flexibility. I just said don't have a crash program.

Are there further questions?

CLOSING OF ADDITIONAL STATIONS

Mr. WYMAN. Do you have at this time, Mr. Halaby, with respect to further closings of flight service stations in this automation program, have you arrived at a firm policy target of approximately how

many additional flight service stations you think you probably may close in the next year or two?

Mr. HALABY. Could I say a substantial additional number, but not all of these stations. We believe there will always be a need for a hard core of flight service stations. It will be at least 150 stations.

Mr. OSTERTAG. Remaining?

Mr. HALABY. Remaining. And that this would take place on a gradual, deliberate basis and it is not a crash program. They will take account of safety or efficiency or the morale and personal interests of our people.

Mr. EVINS. That is fine.

That ought to make everybody comfortable.

Mr. HALABY. Except me.

SAVINGS ON CLOSING FLIGHT SERVICE STATIONS

Mr. BOLAND. Mr. Chairman, would you permit him to finish his answer on the question of costs? I do not think he quite gave what the savings would be. You said after absorbing the consolidation costs that you would actually have a savings of $1,800,000.

Mr. HALABY. If we closed 40 more, there would be a saving of about $2 million additional. If we went on later to an additional closing of 40 it would be about another $2 million; and the net for closing 120 stations, if we could ever do that, would be around $6 million and 400 positions.

Mr. BOLAND. An annual saving?

Mr. HALABY. Yes, sir.

Mr. EVINS. Mr. Halaby, these small savings you have now built into large amounts. If you multiplied that by 10 years, you could make it larger and if you multiplied by 50, you could make it even larger. You could make the figure astronomical.

Gentlemen, let's return to the Administration's statement.

INCREASED PRODUCTIVITY

Mr. HALABY. I am at the bottom of page 7 and I am about to make a plea, Mr. Chairman, that we have really cut this as tight as we could and then as Mr. Jonas brought out yesterday, the Budget Bureau and the President have pruned it further and that we are counting upon a 4-percent or 5-percent increase in the output per man and woman in the coming year.

If, for some reason, we have overestimated the ability of our people to provide more service in the same time each day, then we are off.

If, secondly, the equipment as installed gives us more trouble than we anticipate, there will be need for more maintenance than we have calculated due to the reliability and the complexity of the equipment.

A third point is that we have made projections about the increase in the workload and if those are low, if we have not adequately planned for the amount of flying there will be by the military, by the airlines, by general aviation, again we would be off and we would have to come back.

So there are all kinds of possibilities that we have got this thing too taut; also, I have to honestly tell you that there is no cut insurance in here.

We have not padded this against an expected 5-percent cut. It is just not in here.

Mr. EVINS. The Administrator is a very able man and a very skilled man and I judge by an examination of his budget that while it looks promising on the surface and there is a reduction that I anticipate and fear supplemental requests.

SUPPLEMENTAL FOR AIRPORT PROGRAM

Mr. HALABY. The only supplemental that we anticipate, and we have alerted you to it in this statement is that because the Federal Airport Act is now in conference—in fact, it was reported out of conference yesterday afternoon at 5 o'clock—and will come before the two Houses perhaps while this committee is still considering our request, that there would be a supplemental for the Federal airport program.

If anything, I am hoping that the President can come to you with additional reductions. They would relate to things that we have had in the mill for some time and things like this flight service station program.

So, far from coming to you for a deficiency or supplemental for our regular operations, already authorized, we do not anticipate any.

Now, what the President will do with respect to the supersonic transport program is a completely different, independent matter.

Mr. DEAN. When the Federal airport supplemental comes down, there will be no requests for additional positions or any type of administrative costs. It will be the grant money alone that will be requested.

Mr. HALABY. On only one occasion in 3 years have I recommended to the President a deficiency or supplemental, and that was with respect to the Pay Act of 1962.

POSSIBILITY OF ADDITIONAL BUDGET REDUCTIONS

Mr. JONAS. I did not quite understand and it seems a little inconsistent to several of your other statements; you gave us a strong pitch for this full budget. You said there was no fat in it. You hadn't taken out any insurance.

Mr. HALABY. Yes, sir.

Mr. JONAS. Then almost in the next breath you said we might anticipate a reduction proposed by the President.

Mr. HALABY. Yes, sir.

Mr. JONAS. If there are any places in here that reductions can occur why should not we make the cuts ourselves instead of waiting on the prospect of Executive action?

Mr. HALABY. Well, sir, as you know, it is the President's budget. I am a member of the executive branch and the President makes the budget estimates and the budget request.

Mr. JONAS. If further reductions are "proposed" it will be his responsibility, then, to propose them. I recognize that he has that right.

We have the responsibility to make some cuts too, if they are justified.

Mr. HALABY. Yes, sir.

Mr. EVINS. Any further questions?

Mr. JONAS. No.

Mr. EVINS. Gentlemen, let us go to lunch and come back at 1 o'clock.

AFTERNOON SESSION

Mr. EVINS. The committee will come to order.

Mr. HALABY. If I could request permission—I think Mr. Jonas put his finger on a very important, and I might say sensitive, point about how can you in one breath say this is a taut budget and in the other breath say if there are any savings, the President will announce them.

What I was trying to say, not very well, was that we have got this budget as taut and as tight as we knew how to make it when it was submitted last fall and when the President submitted it in January. What I was pleading for was your confidence and respect, that if we find any savings in here of any kind we are going to make them. We are not just going to sit on them and pad it out. If there is anything we have tried to do in these past few years, it is to get management control over people and costs.

Whether we have done it or not, of course, is for you to judge. The second thing is, in that chart I showed you I did not want you to think that we had the funds for all of these jobs.

Mr. JONAS. I am glad you are clearing that up.

FUNDING VERSUS EMPLOYMENT

Mr. HALABY. The funds we have available are to pay the people who are actually employed. Of course, as you gentlemen know, there is a whole variety of reports on people.

For example, the Civil Service Commission report in August on form 113, which is total employment, including full-time people, part-time people, consultants, when actually employed people, and so forth—that is the total number; that number for us began to come down in August.

This is Mr. Willey; perhaps he could mention those numbers for whatever period he has.

Mr. WILLEY. I just have 6-month dates but as for June 30, 1963, the total employment of all kinds was 46,432, whereas, as of January 31, the total employment of all kinds was 45,546.

Mr. HALABY. When you start comparing those with these figures you can see there is another distinction because they have included anybody who is, in any sort of a pay status during a month, so that in January 1964 we show 44,223 full time and 45,546 in total.

The difference is the definition of employment.

I did want you to know that we are funded for——

Mr. OSTERTAG. That is the point.

Mr. HALABY. That I think is important to this committee. We are funded for the lower of those two lines on the chart that I gave you, sir.

In the past we have had this wide gap, due to the number of facilities being commissioned and the continuing expansion of the Agency.

We now have this closing gap here due to the fact that the Agency is consolidating and reducing. There is no intention of suggesting that we have achieved more savings that we have but at the same time the savings are real.

Mr. OSTERTAG. You have referred several times to "authorized."
Mr. HALABY. Yes, sir.

FUNDED AND AUTHORIZED POSITIONS

Mr. OSTERTAG. What is the difference between funded and authorized?

Mr. HALABY. I am going to ask Mr. Alexander, the Budget Officer, to explain that.

I think I know, but I think his technical language is probably more precise than mine.

Mr. ALEXANDER. The authorized job is the established complement, like a manning table in the military services. It is the total number of positions which may be filled for any facility, a station or division in Washington or anywhere else. It is a complete manning table.

Funded is that portion of the total authorization that we would expect to have filled. Try as one might, he can only fill up to within 97 or 98 percent of his authorized because of turnover, because of problems in finding the right people.

There is always a gap between the total you are trying to fill and the total you are able to fill.

Our experience has shown that even in a nonexpanding continuing operation, that the filled jobs will be about 2 percent below authorized.

Mr. EVINS. I think when Mr. Ostertag refers to authorized, he means that which is authorized by the Bureau of the Budget, the number of slots.

Mr. ALEXANDER. That is right.

Mr. EVINS. The Bureau says that you are authorized so many positions, so many slots. If you can get the men for them go ahead and fill them.

Mr. ALEXANDER. That is right. We budget up to about 98 percent of that on the average by year end and if you are building-up in a year, the financing is somewhat less than 98 percent, if the program is level it is about 98 percent.

Mr. OSTERTAG. The authorization you speak of is one that exists as between the executive branch and the Bureau of the Budget rather than the law?

Mr. ALEXANDER. That is right. It is the same as the total number of permanent positions that show up in the tables in the committee print for example.

Mr. OSTERTAG. The point is that some programs and some agencies operate under annual authorizations. The law itself grants the authorization where that does not exist in your case. You have an agency with a responsibility, so the number of positions is not a matter of annual authorization.

Mr. ALEXANDER. That is correct.

Mr. OSTERTAG. It is a matter of what is budgeted and approved through the Bureau of the Budget; am I correct?

Mr. ALEXANDER. And as acted on by the Congress through appropriation action.

Mr. OSTERTAG. That follows.

Mr. ALEXANDER. For example, we could not authorize any positions without——

Mr. OSTERTAG. All I wanted to clear up was your reference to the term "authorized."

Mr. EVINS. You are authorized by the Bureau of the Budget for 1965, 46,351 positions.

Mr. ALEXANDER. That is right.

Mr. EVINS. How many positions did you request of the Bureau of the Budget?

Mr. ALEXANDER. About 400 more than that.

Mr. EVINS. The point is, while there is a gap between the authorized number and the funded amount, there is no actual reduction by the Administrator in requests for positions. The Administrator asks the Bureau of the Budget for more positions than was permitted.

Mr. ALEXANDER. No, sir. Our request to the Bureau of the Budget was below what our 1964 authorization is. It was below the 47,111 figure. It was in the neighborhood of 46,750.

Mr. HALABY. Then they cut that about 400.

Mr. EVINS. I think we have that pretty well described.

Mr. HALABY. If we can do better than that, we will. That is all I was trying to get across.

LEGAL SUITS IN AIRCRAFT ACCIDENTS

I have had one experience during the last year that is worth highlighting for just a moment and that is the realization through some court actions in which as much as $600,000 has been granted in a negligence suit to a single plaintiff killed in an aircraft accident. In other words, the amount authorized the next of kin is now in very, very high figures.

Second——

Mr. JONAS. Will you elaborate a bit on that? You mean they sued the Government?

Mr. HALABY. They sued. They almost always sue the airline if there is a collision, the other airline, the individual operators, and the Government. Sometimes they include an airport where there is a landing accident.

The judgments awarded have been steadily moving up in these tort claim actions. I would say a couple of years ago we were looking at about 300,000 or 400,000. There was one awarded in the New York Supreme Court for $600,000 last Friday, and in California, $943,000 2 months ago.

These were quite accomplished individuals and they did have earnings expectancies that were quite high.

The second thing is that the Department of Justice, after very careful examination of the New York midair collision, which occurred you will recall in December 1960—I think one of the first things General Quesada told me about when I was appointed was this accident in which he and the FAA to this day have taken the position, that the FAA was not culpable. One carrier flew down through one of the FAA fixes or you might say, intersections, or stop signs, and rammed into the other carrier. Of course, the plaintiffs, of which there are 104, sued the airline that rammed the airline that was

rammed, and the FAA because it was under our instrument flight rule controller. We believe that the FAA was not responsible; that you could not hold the FAA responsible for an operator who went through and passed the holding instructions and then struck another airplane.

The Department of Justice, after carefully looking over that case, said that the litigation risk of the judge and/or jury holding the Government culpable indicated that we had better settle, and so the judge got the parties together—that was United Airlines, TWA, and of course, they were represented by insurers, and the FAA represented by the Department of Justice—and worked out a formula. The formula was 61 percent United, 24 percent Federal Government, and 15 percent TWA.

You say, "My Lord, TWA was innocently flying in and landing at LaGuardia, fully on course. Everything was fine." The FAA controlers had told the other man to stop and he went through the stop light, so why isn't United fully liable? The answer from the Department of Justice was—perhaps to you technicians that is clear, but with a judge and a jury the risk is that they might find the United States entirely liable for not having taken some affirmative action to vector the innocent aircraft away or to vector the overtaking aircraft away.

My only point in raising this is that to a much greater extent than I had hitherto realized, the FAA can, through either omission or commission, subject the U.S. Government to financial liability greater than you and I might have expected. For example, in the calendar year 1963 there were filed against the United States, in the form of the FAA, 102 cases, and 36 others previously filed were closed.

There are now pending, as of December 31, 1963, 371 cases in which we are being sued for $153 million.

These totals are caused by two things: First, individual claims for wrongful death are greatly increasing and juries are giving greater judgments; and second, more people are suing the Federal Government because of their either real or imagined mistakes. Thank God we have not had any major collision since 1960. They have been small ones, terrible to those involved, but not major.

Mr. EVINS. How many cases in the past 2 years have judgments been entered by the courts against the FAA?

Mr. HALABY. I am going to ask the General Counsel to answer that question, Mr. Goodrich.

Mr. GOODRICH. Mr. Evins, I do not think I have that precise figure in terms of the last 2 years' totals. The outstanding series of cases in which we have been involved, however, those that the Administrator described, are the cases arising out of the New York midair collision. In 58 cases, 1 of which was tried and 57 of which were settled so far, a total liability of $7,347,400 has been incurred, 24 percent of which will be the Federal Government's share.

I would like to have your permission to get a complete summary of cases in the last 2 years involving the Government and the liability we have incurred.

Mr. EVINS. It will be included in the record at this point.

(The information supplied follows:)

JUDGMENTS AGAINST UNITED STATES INVOLVING FAA OPERATIONS, 1962–63

In 1962 judgments were entered against the United States and United Air Lines in 24 of the lawsuits arising out of the Las Vegas United/Military collision. These judgments totaled $2,675,295. The decision with respect to the United States was based on findings of negligence on the part of the Air Force and the FAA. These decisions are currently on appeal.

In addition, during 1962, two suits were terminated by compromise settlement entered into by the Department of Justice for amounts totaling $5,500.

In 1963, one suit resulted in judgment against the United States in the amount of $83,000 (*Franklin* v. *U.S.*). This decision is currently being appealed. Additionally, in 1963, four suits were terminated by compromise settlement by the Department of Justice for amounts totaling $11,000.

Mr. HALABY. My only point is that you can truthfully say that when you are voting funds for the FAA, you are voting insurance because the untold numbers of collisions that have been prevented by the FAA save the United States from enormous liabilities.

It has grown more serious even in the last 2 years.

Mr. EVINS. Most of the lawsuits have grown out of one accident; is that correct?

Mr. HALABY. No, sir. There are a number of accidents over the 5 years' life of the FAA. We can list those. For example, Brunswick, Md., Las Vegas——

Mr. EVINS. The General Counsel, of necessity, concurs with the judgment of the Solicitor General of the Departments of Justice in entering this consent decree and all of these consent decrees? We know the Department of Justice reperesents the Government, but there might be a precedent case in which your Counsel might want to make a test case to exonerate the FAA.

Mr. HALABY. Yes, sir. In this particular case—may we put this list in the record of the cases?

Mr. EVINS. Yes.

(The list follows.)

Litigation arising out of major aircraft accidents

AS OF DEC. 31, 1963

Case	Number open	Amount
Brunswick, Md. (Capital Airlines/ANG jet, May 20, 1958)	16	$12,868,858.38
Las Vegas, Nev. (UAL/Air Force Apr. 21, 1958)	40	18,606,110.12
Miami Internal Airport (Braniff, Mar. 25, 1958)	9	3,830,000.00
Boston, Mass. (EAL, Oct. 4, 1960)	54	16,773,500.00
Staten Island, N.Y. (TWA/UAL, Dec. 16, 1960)	104	70,398,107.15
Toledo, Ohio (Arctic Pacific, Oct. 29, 1960)	26	4,520,500.00
Agana, Guam (World Airways, Sept. 19, 1960)	39	1,801,840.00
Boston, Mass. (AAL, Sept. 24, 1961)	1	50,000.00
Boston, Mass. (NE/Nat'l, Nov. 15, 1961)	4	520,000.00
Atlanta, Ga. (Beechcraft Bonanza, Nov. 10, 1961)	3	2,408,950.00
Idlewild Airport, N.Y. (Aeronaves de Mexico, Jan. 19, 1961)	2	1,200,000.00
Idlewild Airport, N.Y. (EAL DC–7, Nov. 30, 1962)	12	5,730,000.00
Shemya, Alaska (Alaska Airlines, July 21, 1961)	8	3,151,000.00
Avoca, Pa. (Piper Aztec, Nov. 20, 1962)	2	1,000,000.00
ADDITIONAL CASES RECEIVED IN JANUARY 1964		
Idlewild, N.Y. (EAL DC–7, Nov. 30, 1962)	2	$650,000.00
Elkton, Md. (Pan Am, Dec. 8, 1963)	7	12,655,058.00

Mr. HALABY. In this particular case, the New York midair collision, we disagreed with the Department of Justice. We felt that we should proceed to exonerate, as you say, our air traffic controllers in this case. We did not feel they were culpable. However, we do not make that final decision and although I had a very frank and full discussion with the Attorney General about it, he felt in his judgment, from the point of view of the whole Government, to save the taxpayers from the risk of litigation, that he should settle and he did.

Mr. OSTERTAG. Have there been any instances where you have actually lost the case by virtue of court action?

Mr. HALABY. In the 3 years that I have been in office, I do not believe that we have had a major negligence case arising out of a major accident. There have been some individual cases, small aircraft accidents, et cetera, where they sue us and have collected, but they are in small amounts and of small significance. There have been no landmark cases and no major judgments.

Mr. OSTERTAG. Does the Justice Department have the right to determine whether or not you go to trial or settle?

Mr. HALABY. Yes, sir.

Of course, they have to take into account a lot of things that we are not able to take into account. However, the judgments, if recovered, have to be budgeted in the FAA budget. If they are tried and lost, they are paid by Justice out of their budget. If they are settled, they have to be paid out of our budget.

PAYMENT OF JUDGMENTS FROM FAA FUNDS

Mr. OSTERTAG. What do you budget for that sort of thing?

Mr. HALABY. We do not, sir. Our function and aim is to prevent such accidents, and they are rare. If one comes up we have to come in and request funds where they are unavailable.

Mr. OSTERTAG. How have you settled these several cases——

Mr. HALABY. The Brooklyn accident?

Mr. OSTERTAG. Such as that one. Do the funds come through FAA or some other source?

Mr. GOODRICH. Since these cases are being settled by agreement the funds will have to be paid out of FAA appropriations eventually.

Mr. OSTERTAG. You do not budget for it, but after a court decree has been handed down, then you will come in and ask for it?

Mr. GOODRICH. That will be the practice, yes, sir. This will be the first occasion to my recollection since I have been with the agency of any need to budget for or request funds for payment of settlement.

Mr. OSTERTAG. Are there funds in this budget for settlement of this one case?

Mr. GOODRICH. No, sir.

Mr. OSTERTAG. When will that come to a head?

GOVERNMENT LIABILITY IN BROOKLYN ACCIDENT

Mr. GOODRICH. When all of the 104 cases are disposed of by settlement or trial we will know the total liability of the Government. At that time we will know what the total liability will be. At the moment the liability of the Government is approximately $1,763,000, based on the 58 cases that have been settled, including one that was tried. There

are another 46 cases remaining to go and the total amount of liability is a matter of conjecture, but probably it will be in the neighborhood of about $12 million, because the 58 cases settled so far involve a total liability of $7,347,000.

Mr. OSTERTAG. Would that be without trial?

Mr. GOODRICH. Fifty-seven without trial, one tried in the New York State Supreme Court, not involving the United States as a party, but in which the United States will participate by virtue of the agreement to settle.

Mr. HALABY. Did they omit us from the action so as to keep it in the New York State court?

Mr. GOODRICH. In a manner of speaking. They omitted us from the action so as to have it tried before a jury. Court actions against the United States are not tried before juries. For that reason, this plaintiff did not go into the Federal courts, but sued only in the State courts.

Mr. OSTERTAG. I don't want to take issue with the Justice Department and their judgment or wisdom in settling, but it seems to me that where you do that you establish a precedent whereby it may plague you for many years to come. Has that occurred to you?

Mr. HALABY. Yes, sir. I guess that was the core of our strong feeling about this case.

Mr. EVINS. $57 million, without the case being adjudicated. That is a compromise.

Mr. HALABY. In other words, our share of the total is, of course, small. That is only one of the 371 cases that are outstanding, so what would be your guess as to the total exposure of the Brooklyn air collision, based upon the settlement?

Mr. GOODRICH. Roughly $3 million, as the probable total amount.

It is interesting that one of the cases, Mr. Ostertag, did go to trial in New York and resulted in a $600,000 verdict by a jury. It went to trial because the widow of the man who died heard of the verdict in a California court about 8 weeks ago in favor of the estate of a rather well-known pianist who died in 1951 in an accident. The award there was $943,000 and in contrast with those two figures, some of the New York cases that have been settled so far have been settled for amounts such as the following: $247,000; $225,000; $320,000; $140,000; $135,000 and others in much lower amounts, such as $55,000 or $97,000.

Mr. EVINS. Off the record.

(Discussion off the record.)

Mr. HALABY. We have had a precedent in the collision between a Bolivian military pilot in a P–38—this was in 1950—and Eastern Air Lines. There was an accident right out here near the river. The judgment was $900,000 and this was paid out of "Facilities and equipment" money which had not been obligated and the amount was added to the subsequent budget.

Mr. OSTERTAG. From FAA?

Mr. HALABY. Yes, sir—CAA.

Mr. OSTERTAG. Did you have authority to do that?

Mr. HALABY. I am advised by counsel and the budget people that unobligated funds are available for the purpose of paying our share of settlements or judgments.

Mr. GOODRICH. That is the practice.

Mr. OSTERTAG. Is that the practice, or is that for this one particular case?

Mr. GOODRICH. The 1950 case? The practice is permitted by statute, 28 U.S.C.A. 2672, and approved by the Comptroller General, 38 Comptroller General Decisions 338.

Mr. HALABY. I have just one more highlight, Mr. Chairman, and then we can go, if you wish, to the books.

RESEARCH AND DEVELOPMENT

Mr. HALABY. As Mr. Thomas pointed out earlier, we have had research and development funds spent in the agency over its 5-year lifetime. This $42 million is one of the lowest requests we have made for new obligation authority. It is a slight increase over the amount appropriated last year, a $2 million increase. I guess I feel that it is where we are tightest and it is where, as Mr. Thomas said, we are liable to get the highest yield in keeping up with national defense requirements, the aviation industry, and the state of the art.

It seems to me we have to assure ourselves that the aircraft, the men who fly them, the operators of the airspace system, meet the standards set by Congress.

I will show you if I may a chart entitled "Research and development appropriation, 1958–65." Starting from an amount of about $15 million, the total available reached a peak in 1962 of $80 million. At about that period, we were able to obtain the help of Mr. Blatt, one of our outstanding career men in the CAA–FAA, and two men from industry, Mr. Robert Shank and a little later Mr. Richard Leng.

Together these men have been able, after holding up funds for a period of several months, to be sure we were applying them in the most effective, high-yield way, to bring the obligations, the total available and the new obligational authority into a balance. In other words, instead of having a lot of unobligated funds that made it appear that we didn't have anything to do with them, we have now, afer a period of taking a breath and very carefully husbanding the funds, brought it into balance. Whether or not this $42 million level is high enough for a system as full of risk and liability as we now have is a question that the committee will want to debate. More than half of the money is, as we showed you yesterday by our little models, devoted to modernizing the air traffic control system and to all-weather landings and in communication and display of the weather.

RESEARCH AND DEVELOPMENT CONTRACTS

Mr. EVINS. Mr. Administrator, if you will permit an interruption, is all of this money for research expended at your center in New Jersey, or is it farmed out in contracts for specific jobs throughout the country with private industry?

Mr. HALABY. A substantial amount of it, sir, is contracted out in jobs to industry and reimbursed to other Federal agencies for work performed in their laboratories.

In the aircraft safety program, which offers great yield in fire prevention, crash, impact survival, noise abatement, and suppression and

protection from lighting, we do a great deal of that. In connection with the medical research, which we are holding to the number of employees last year, most of that work is done at the medical laboratory at Oklahoma City and in Georgetown University here.

Mr. EVINS. Since you are running so many services for the Department of Defense for which you are not reimbursed, can you not call upon them to give you the benefits of their research—and it is tremendous. Can't you call for the knowledge and information in the field that you need it?

Mr. HALABY. Yes, sir; for example, when you and I went down to see that great Arnold development center at Tullahoma, Tenn., I stood there with you in the throat of that fabulous tunnel, where much of the work on engines and high-speed airframes, and now missiles, has been done—a great creative establishment that has echoed and benefited all around the world. That is the kind of facility, along with the one at Ames, at Moffett Field, and Langley Field of NASA, that we not only need to but do utilize. For example, Tullahoma is one of the few places in the world where you could test a big high-thrust supersonic engine. In fact, military engines have been tested there. Some foreign countries indicated an interest in testing there.

I think they were a little bit afraid of what those people in Tennessee might find out about their engine though, so they haven't come through with that request. But to me the fact that we spend $23 million outside of the Government and $19 million inside the Government, if you give us the $42 million, is a pretty good balance; and also to me, this R. & D. appropriation request is pretty close to the bottom, if not below the bottom, because it is only 6 percent of the budget estimate. It is less than 4 percent of the value of our capital plant, which this committee has helped us install over the several years.

RELATIONSHIP OF R. & D. FUNDS TO TOTAL BUDGET

I would say if I were in a corporation with as much traffic volume and technological change as FAA, I would want considerably more. I would want 5 to 10 percent devoted to R. & D. Of course, when you compare our 6 percent of the budget estimate to the Atomic Energy Commission, to the DOD, you find it is much lower and when you, of course, compare it to NASA, it is infinitesimal. We are making a strong plea for research and development.

Mr. EVINS. It is really not criteria, is it, to match your figures percentagewise with DOD, AEC, or NASA, but really the test should be what are our needs, what are our requirements, what specific projects did we need research and testing on?

Mr. HALABY. Of course, Mr. Chairman, and I am simply by analogy pointing out that the R. & D. request here is, as you can see, tiny. We are defending the skies from death, delay, and diversion. The Defense Department is defending the skies from our enemies. We are proposing $42 million for the day-in, night-out protection of the people in the sky and down below.

Over there in the Defense Department they are proposing to spend $7 billion to defend us from our foreign enemies. I am just putting

those two alongside of each other; that is all I am doing. The R. & D. in NASA is $5 billion.

Mr. EVINS. The Congress has been increasingly concerned about the cost of research and development, so much so that they have set up a special select committee to look into all aspects of research and development. This committee wants to be assured that the funds which we appropriate for your Agency are wisely used.

ACCIDENT AT ELKTON, MD.

We think research is important, and specifically alluding to one headline accident in which a jet over here in Maryland was alleged to have been destroyed by lightning, what has your laboratory been able to develop in the way of research to prevent, if possible, accidents caused by lightning?

Mr. HALABY. Yes, sir; at Elkton, Md. The hearings are underway under the leadership of that very wise and fine man, Mr. Alan Boyd, up in Philadelphia this week. We have a task force in the FAA composed of some of the best experts in the field of meteorology, of static electricity, of materials; and we are bringing together all of the tests of all of the work that has been done over the last couple of decades on lightning and then the engineering and research work on how, once lightning strikes, the people and the materials in the airplane can be protected. Since that accident, the probable cause of which will be determined by the CAB, we have taken several steps to see that such an accident does not recur. I am going to ask Mr. Thomas and Mr. Moore to mention those, but in particular I should point out that this is probably the first accident on an airliner that will be pinned down as to having been caused by lightning.

Mr. OSTERTAG. Actually, your study is to determine cause, rather than research with regard to what needs to be done in the field?

Mr. HALABY. No, sir. For example, we had a contract about a year ago, which was to study the kind of vents from fuel tanks. That work has been underway. We have just let a contract through the aircraft development service to a company down in Florida called Lightning & Transients Research, and there they are going to take a wing, donated to us at our request by the Boeing Corp., and expose it to various levels of lightning bolts, various levels of strength and we are going to see just how the flame propagates through the tank.

Are we going to put some fuel in that tank or not, Mr. Bates?

Mr. BATES. Yes, sir. Actually, we will put fuel in it and what we are trying to do there is to determine whether or not lightning striking on the exterior of the tank can cause internal sparking, which might ignite a fuel mixture. Then we are going further and working with Lightning & Transients Research and the Atlantic Research Corp. over in Virginia to develop special flame arrestors that would stop flame from propagating through a vent pipe. It is a going program to determine what happens inside the wing and to assure that lightning can be stopped from starting a flame front through a vent pipe.

Mr. HALABY. The number of lightning strikes is somewhere around one strike per 2,500 hours on the piston aircraft flying in the lower altitudes, and around one per 10,000 hours reported in the higher altitudes of the jets and the higher flying turbine aircraft. Here is one, after years and years, where it appears to have been caused by a strike. We, also, are carefully researching the fuel in that wing and the way the wing tank and vents were constructed—what they may have had to do with it. We have a whole series of R. & D. projects related to that kind of aircraft safety.

Mr. Chairman, I have hit the highlights in the statement. We would welcome questions about the book.

PLACING OF R. & D. CONTRACTS

Mr. EVINS. Most of your research will be contracted out?

Mr. HALABY. Some in NASA and some outside. I would say on this that more than half of it is outside. It is 60 percent.

Mr. OSTERTAG. There are certain aspects of this that I would like to get into when we get into the justifications.

DEVELOPMENT OF SUPERSONIC TRANSPORT

If I understand correctly, and R. & D. you have excluded the supersonic requirements?

Mr. HALABY. Yes, sir. That is a separate autonomous program in the FAA. We feel that it is properly independent of the regular operations of the Agency. You know the theory of that program is to get it started, get a couple of them built and tested in partnership with the manufacturers, and then get out of it so that the normal free enterprise relationship between the airline and the airplane manufacturer would be continued.

Mr. OSTERTAG. This is in your justifications; is it not?

Mr. HALABY. No, sir. There is nothing in the budget request for the supersonic transport.

Mr. OSTERTAG. You are not asking for any money this year?

Mr. HALABY. No, sir.

Mr. OSTERTAG. Perhaps, Mr. Chairman, this would be the time for us to discuss it then, because when we get into the justifications, it will not appear there. Therefore, there is no way by which we can discuss it.

As you know, Mr. Administrator, I, along with Mr. Boland of this committee, joined you at one time last year in a conference with the British and the French on the supersonic air transport. We supported you last year with regard to funds and authority to proceed.

I think the committee should know where you stand in this whole picture. The President has indicated that this is a joint venture. It is properly the responsibility of private industry as well as the Government. You indicated to us last year that you were going to proceed along the lines of agreements for a cost-sharing responsibility.

What can you tell us has happened and where do you stand in this matter of supersonic air transport development?

Mr. HALABY. Mr. Ostertag, I know of your great interest in this program. I recall our appearing together in a telecast, in which you asked some very searching and extremely important questions about the program.

Mr. OSTERTAG. Perhaps what you have to say, Mr. Administrator, will disclose why there is no requirement for funds in this budget for this purpose.

Mr. HALABY. Yes, sir.

The program that we outlined to you last year has unfolded precisely as we represented it to you. You reported, and the House voted, and the Senate committee reported, and the Senate voted $60 million to conduct phase 2 of the program, which was described to you as a detailed design competition in which competing manufacturers would be given a year in which to compete for the final prize, an award of a contract for the construction, which would be phase 3, of two models and test them in the course of the program.

If you will remember, President Kennedy sent the program up with some very severe constraints in it. First, he offered the Government's putting in 75 percent of the cost of development, which was estimated to be $1 billion worth of total development costs, so that the Government's share would be as much as $750 million, on condition that the manufacturers would put up 25 percent, which was estimated to be $250 million divided between the airframe and the engine manufacturer.

He also proposed that there be severe penalties for cost overrun of these contracts, because, as you know, the military projects in this field—and I do not know about the NASA—have a habit of overrunning. In fact, over the 10 years, from about 1950 to 1960, I believe, the projects overran on an average of about 300 percent, so it said that every dollar over the contracted development cost would be 75 percent manufacturer's money and 25 percent Government money on the first $100 million of any overrun, and 100 percent manufacturer's money on that portion of an overrun in excess of $100 million.

The third point, and I think the most important to this committee, was that the entire development investment of the taxpayer would be recovered out of royalty on the earnings of the airlines using the supersonic transport.

Mr. OSTERTAG. Providing it was economically feasible.

Mr. HALABY. Yes, sir. We would not, according to the President's letter, proceed with construction and test unless it appeared economically feasible.

The President's proposal was sent to Congress in May 1963. That program was heard by you, was heard by the House Commerce Committee, was discussed in the Elliott committee, to which Mr. Evins referred a moment ago—incidentally, Mr. Evins, the transcript of our appearance before the Elliott committee will show some rather extraordinary support for the kind of research and development FAA was doing and several of the members indicated their support for our kind of R. & D. program. But leaving that parenthetical remark, we were heard by the House Commerce Committee, and finally by the Senate Commerce Committee, in extenso, with all kinds of other

witnesses. In that presentation we said we would put out a request for proposals on August 15.

Some doubted that Mr. Bain—with a tiny staff—and I could get that out. We not only got it out, but we got it out with the concurrence of the airlines and comment by the manufacturers on August 15. We called for proposals to come in January 15.

Mr. Evins. Did the Elliott committee endorse the supersonic transport research program?

Mr. Halaby. I don't believe, sir, they endorsed anything in their first preliminary report.

I believe it just came out the other day.

Mr. Evins. You say they favored the type research we are doing in FAA. Did that include supersonic transports?

Mr. Halaby. I don't believe they spoke to the point, sir.

Mr. Ostertag. Wouldn't the Elliott committee be involved in a study of the overall problems, possible duplication, and matters of that kind? Is it too early for them to have any, what might be termed "conclusions" with regard to this or any other matter?

Mr. Halaby. I think this was just their first preliminary report.

Mr. Evins. Mr. Ostertag, we were talking about the reductions in the budget and on page 9, volume 1. The appropriation for supersonic transport was shown for $60 million for 1964 and no funds are requested in the budget for this year, which brings about a $60 million reduction in the overall appropriation estimate.

Mr. Ostertag. I think it is important that testimony at this time give us some indication of what progress has been made. Also, perhaps we might have some indication as to what is new with regard to the competitive aspects; namely, the development between the British and the French.

Mr. Evins. Mr. Reporter, will you please place in the record at this point, the bottom of page 17 of the Administrator's statement with respect to civil supersonic aircraft development, that half of the page.

(The information is as follows:)

Civil Supersonic Aircraft Development

In accordance with the plan previously discussed with the Committee for the development of a civil supersonic aircraft, no funds have been requested for fiscal year 1965, pending completion of the detail design phase. We are now evaluating design proposals from three airframe manufacturers and three engine manufacturers. If the results are sufficiently promising, we expect to let contracts for a detail design competition in accordance with the schedule previously established. These contracts would be financed by the $60 million appropriated for this purpose for the current fiscal year. The timing and amount of the next appropriation and, indeed, the necessity for the next appropriation, will be determined on the basis of the design evaluation and the outcome of the detail design studies. We do not foresee a need for additional appropriations during this session of Congress.

Mr. Halaby. Could I also, Mr. Chairman, request that you put into the record a paragraph from page 104 of the President's budget which simply says:

The joint industry-Government program to develop a civil supersonic transport aircraft for which $60 million was appropriated in 1964 is proceeding on schedule. Design proposals have been received from prospective manufacturers and will shortly be evaluated for technical and economic feasibility. Expenditures for this program are estimated to increase in 1965 by $42 million. All

other expenditures of the FAA, taken together, are estimated to decline slightly from 1964 to 1965, despite increase in air and in related workloads.

PROPOSALS RECEIVED FROM U.S. CORPORATIONS

Mr. HALABY. We have received now six proposals from six American corporations: Boeing, Lockheed, North American, airframe proposals; Pratt & Whitney Division of United Aircraft, General Electric, and Curtiss-Wright, proposals from powerplant corporations.

We did not receive proposals from other major airframe manufacturers.

First, McDonnell indicated they were fully involved in military work. Second, Douglas indicated that they had stretched their transport division resources by undertaking the DC-9; and third, Convair indicated that they did not propose because they were fully engaged in the TFX contract. So we got three airframe manufacturers. Those proposals are now being evaluated under the capable and energetic direction of Mr. Bain, who has been made a Deputy Administrator of FAA, and given a small autonomous unit way out, so there would be no conflict of interest, so the two budgets could be kept separate and so it could be a self-liquidating project, and not the sort that would grow into the woodwork of FAA.

Mr. EVINS. Do you consider Mr. Bain's operation similar to that of a separate, independent agency?

SUPPORTING SERVICES FOR SUPERSONIC PROGRAM

Mr. HALABY. It is a semi-independent agency; yes, sir. I think you actually gain all of the advantages of having our general counsel, our financial and administrative support and his feeling that although he is out there, he is still a member of the family that has to develop the airways, that have to work on airports, that have to do the air traffic control, and so on.

Anyway, he is there, he has on temporary assignment 210 men. There are about 25 military officers and the remainder are civilians from NASA, DOD, CAB, etc.

Mr. OSTERTAG. Does that come out of this $60 million?

Mr. HALABY. This is of very little cost because they are all assigned by their respective bosses for this evaluation period, but the costs that are incurred by the evaluation do come out of the $60 million.

Now, they are about halfway through the evaluation and we are not in the position—because we haven't completed the work and because of competitive aspects and the need for very discreet and objective and therefore confidential dealing with these bids, to state the results of the evaluation.

COST SHARING

I can make one statement that I think Mr. Ostertag is particularly interested in and that is, although the six manufacturers propose to share costs in phase 2, which is a 12-month period from May 1964 to June 1965, where they detail out their designs and build mockups and produce some pieces of property on type components, they have offered to share in that phase, but they have declined to offer to share

25 percent in phase 3 construction and test of two prototype aircraft.

I think I said to this committee last year that it was very unlikely that they would put up 25 percent but we would try our very best, for two reasons:

1. This is a commercial project and should stand on a normal free enterprise commercial basis, and

2. Every dollar that the manufacturer puts into this project tends to give him an incentive to reduce its cost.

Mr. OSTERTAG. Wasn't there included in President Kennedy's message to the Congress, a provision that private industry must participate in the cost sharing by at least 25 percent, or the development would not proceed?

Mr. HALABY. I would like to put President Kennedy's letter in the record for the benefit of the committee.

Mr. EVINS. It may be included.

(The letter follows:)

THE WHITE HOUSE,
June 14, 1963.

DEAR MR. SPEAKER: The Congress has laid down national aviation objectives in the Federal Aviation Act of 1958. These include the development of an air transportation system which will further our domestic and international commerce and the national defense. These objectives, when viewed in the light of today's aviation challenges, clearly require the commencement of a national program to support the development of a commercial supersonic transport aircraft which is safe for the passenger, economically sound for the world's airlines, and whose operating performance is superior to that of any comparable aircraft.

Our determination that the national interest requires such a program is based on a number of factors of varying weight and importance:

A successful supersonic transport can be an efficient, productive commercial vehicle which provides swift travel for the passenger and shows promise of developing a market which will prove profitable to the manufacturer and operator.

It will advance the frontiers of technical knowledge—not as a byproduct of military procurement, but in the pursuit of commercial objectives.

It will maintain the historic U.S. leadership in aircraft development.

It will enable this country to demonstrate the technological accomplishments which can be achieved under a democratic, free enterprise system.

Its manufacture and operation will expand our international trade.

It will strengthen the U.S. aircraft manufacturing industry—a valuable national asset—and provide employment to thousands of Americans.

The cost of such a program is large—it could be as great as $1 billion for a development program of about 6 years. This is beyond the financial capability of our aircraft manufacturers. We cannot, however, permit this high cost, nor the difficulties and risks of such an ambitious program to preclude this country from participating in the logical next development of a commercial aircraft. In order to permit this participation, the United States, through the Federal Aviation Agency, must proceed at once with a program of assistance to industry to develop an aircraft.

The proposed program, though it will yield much technological knowledge, is principally a commercial venture. Its aim is to serve, in competition with others, a substantial segment of the world market for such an aircraft. While the magnitude of the development task requires substantial Government financial participation, it is unwise and unnecessary for the Government to bear all of the costs and risks. Consequently, I propose a program in which (1) manufacturers of the aircraft will be expected to pay a minimum of 25 percent of the development costs, and, in addition, (2) airlines that purchase the aircraft will be expected to pay a further portion of the Government's development costs through royalty payments.

The requirement for cost sharing by the manufacturers will assure that the cost of the program will be held to the absolute minimum. In no event will the Government investment be permitted to exceed $750 million. Moreover, the Government does not intend to pay any production, purchase, or operating subsidies to manufacturers or airlines. On the other hand, this will not exclude

consideration by the Government of credit assistance to manufacturers during the production process.

Although the Government will initially bear the principal financial burden in the development phase, participation by industry as a risk-taking partner is an essential of this undertaking. First, the development of civil aircraft should be a private enterprise effort, a product of the interaction of aircraft manufacturers and their prospective customers. We wish to change this relationship as little as possible, and then only temporarily. If the Government were the full risk taker, the degree of control and direction which it would have to give to the program, to the expenditure of funds, to the selection of designs, to the making of technical decisions, would of necessity be too great. If however, private industry bears a substantial portion of the risk, the degree of Government control and the size of the Government staff required to monitor the program can be held to a minimum.

Secondly, our objective is to build a commercially sound aircraft, as well as one with superior performance characteristics. This will require, at a relatively early stage, a determination whether the aircraft's cost and characteristics are such that it will find a commercial market. This is a difficult task, and our decision that we have succeeded in developing such a commercially sound aircraft will, in a large measure, be attested to by industry's willingness to participate in the risk taking.

If at any point in the development program, it appears that the aircraft will not be economically sound, or if there is not adequate financial participation by industry in this venture, we must be prepared to postpone, terminate, or substantially redirect this program.

Our first concern, however, must be to get the program launched. I am convinced that our national interest requires that we move ahead in this vital area with a sound program which will develop this aircraft in an efficient manner. For that reason I commend this proposal to your early attention.

I will shortly submit to the Congress a request for funds to meet the immediate requirements of this program, such as the detailed design competition. Then we will be started on the task of marshaling the funds of Government and the ingenuity and management skills, as well as funds, of American industry to usher in a new era of commercial flight.

Sincerely,

JOHN F. KENNEDY.

Mr. HALABY. I would also refer to the committee's report of last year—this committee's report to the full House—and finally to recall that just about this time last year I indicated off the record to the committee serious doubts that we could obtain a 25-percent contribution because this would risk the total net worth of any one of these three companies if the project failed after they had put in $250 million.

I recall Mr. Evins saying, "Well, you ought to try to get 35 percent."

Mr. OSTERTAG. Aside from the fact that this is a far-reaching project of development, the point remains that under the Government-industry relationship in America, as compared with other nations in the world, the aircraft industry and the airlines are on a private enterprise basis and the Government is not directly related to the operation as a business. Yet the project and the cost of development was far beyond the reach of any segment of our private enterprise, or even combinations of it, to the point where this never could happen if the Government didn't go into it. But the development is still basically within the scope of our free enterprise system here in this country. If private enterprise cannot or does not go into it to at least the tune of 25 percent, then it resolves itself into a complete Government operation. What are we going to do if we are going to pay all the costs for the benefit of the free enterprise system? Although there will be royalties involved and other benefits involved, it never will return to the U.S. Government what it has put into it. Am I right or wrong?

Mr. HALABY. The situation is, at the time, on the basis offered by President Kennedy, there is likelihood of agreement on about 25-percent industry cost sharing between the Government and the manufacturers on phase 2, only. There is no likelihood of agreement between the Government and the manufacturers on phase 3 at 25 percent. And, therefore, we are in a state of completing the evaluation to see if the projects are technically sound. Then, whether they are economically sound. And, third, the President must consider whether or not he wishes to change the formula that President Kennedy presented last summer.

You will recall that this committee——

Mr. OSTERTAG. May I say I wholeheartedly supported President Kennedy's policy on it.

Mr. HALABY. I know you did.

You said in your report to the full committee last year:

> The overall development cost is estimated to be from $700 million to $1 billion, and the Administrator is trying to work out a program whereby the industry will contribute up to 25 percent.

Then the Senate in the light of your judgment on this stated the following, and this is a sentence out of a paragraph on page 8:

> If aviation manufacturers will not assume approximately 25 percent of the development cost and the Administrator still believes it is in the public interest to proceed with the program, he is requested to advise the committee 30 days prior to the awarding of any contracts for the detailed design phase of the program.

INDUSTRY POSITION ON COST SHARING

Now, they, of course, had had the benefit of testimony subsequent to your hearings, here, by the manufacturers who frankly said they would not pay 25 percent of the total development cost. And the hearings, of course, were published and their main point is that $250 million would risk the entire net worth of one of these companies on a single project and that they felt it was unwise, an unwise risk of their stockholders' equity.

Mr. EVINS. Mr. Administrator, you are a wonderful man and we all admire you and we have great confidence in you. We hoped you would persuade them to take up 25 percent when we suggested 35, and now we have press reports that they won't pick up 10 percent. They want the Government to take 90 or 100 percent.

Mr. HALABY. I have to tell you before President Kennedy made his proposal, an industry advisory group of mine, under Gen. Orval Cook, had recommended that this formula be a much more flexible one and felt that it should be worked out in the light of how successful the test airplane proved to be.

Then Mr. Kennedy, because he wanted to bring to bear the best financial and technical talent he could locate, got Mr. Eugene Black who brought in an associate, Mr. Stanley Osborne, and they have given the President a report which I hope will be published very shortly. It is all but published now, because of many quotations from it, all of them unauthorized by the President.

Both these reports say that it is unrealistic to expect a $250 million gamble by the plane makers. So we are completing the evaluation, we are under the guidance from you and the Senate committee to re-

port and we will await the completion of the evaluation before coming to a decision.

Mr. OSTERTAG. May I add this: You have passed through zero phase and phase 1.

Mr. HALABY. Yes, sir; the study phase for which you gave us $31 million.

Mr. OSTERTAG. And you have had funds for this general purpose prior to this last year's appropriation?

Mr. HALABY. Research and study.

Mr. OSTERTAG. What I was particularly reaching for was, what has happened since a year ago when we discussed this matter and the President submitted his message and we approved your $60 mililon? It seems to me that the picture ought to be cleared up:

First of all, has the timetable of this project changed? Has the final cost of this development changed? There are many aspects to go into. For example, a recent newspaper reporter, a statement made by a prominent airline official said, "The supersonic transport program currently under study by the FAA will very likely be kept flexible for several years."

STATUS OF SST SCHEDULE

Mr. HALABY. Yes, sir. I think first with regard to the timetable we published last August 15 requests for proposals that went out to a large number of companies. We laid down a calendar in there and I am proud to say that due to the indefatigable efforts of a brilliant public servant who has worked out his heart on this, Mr. Bain, every deadline has been met to date.

We said that on September 15 we would brief the manufacturers. We did.

We said that on September 10 the airframe and engine manufacturers would tell us whether or not they were going to bid. They did. Six of them said they would.

We said that on November 15 the engine people should give the airframe people their preliminary engine designs. They did.

December 13, the airlines would tell us as to whether or not they wanted to evaluate the proposals, because we feel we are arm in arm with the airlines. They are the buyers and we, the Government, ought to be a temporary investor, only. We did. Some 10 airlines said they would like to evaluate.

On December 20 we told the manufacturers who these airline evaluaters would be.

We said back in August that the deadline for the receipt of these proposals from the airframe and engine people would be January 15. They came in. All six of them.

Mr. EVINS. You have met all of your target dates?

EVALUATION OF SST PROPOSALS

Mr. HALABY. We have met every single one and the next important one, Mr. Chairman, is the airlines evaluation of the six proposals. The are going to weigh heavily with me just as will that of my good colleagues, 200 strong down here, in their evaluation, because who is going to buy this airplane? Not the taxpayer, as I see it. The airline

stockholders are going to buy it. The stockholder will risk his money in search for profit from the operation of these aircraft.

Now, on the development cost estimates I think I can say properly without violating my responsibility, that of the three airframe proposers, one estimates the development cost lower than our $1 billion; one somewhat higher, and one substantially higher, which suggests that we were not far off. In fact, on the average of the three——

Mr. OSTERTAG. What was that $1 billion?

Mr. HALABY. $1 billion total development-and-test cost. On the average of the three we are slightly below the average estimated development cost. So we are not far off on that.

DEPOSITS RECEIVED FOR SUPERSONIC AIRCRAFT

Now, you say, "What has happened since?" Well, the most favorable thing that has happened is that TWA came in one day early last fall with a check for $600,000 and they said, "We want to make a deposit on an SST. These other fellows, Pan American, are going to France and England. We want to make a deposit with our own Government and get the first delivery positions."

Well, we never had dreamed that anybody would put down hard cash for an airplane whose construction hadn't either been authorized or appropriated or designed, but they wanted to be the first. And in the subsequent months, up to last weekend, 72 delivery positions have been sought and authorized and we have deposited in a special account of the U.S. Treasury, $7,200,000.

Now, we did this, which is normally between the airline and the manufacturer and one into which we did not want to trespass, but we did this for two reasons: The British and French were running away with the market, and as you and Mr. Boland recall, last spring, when we were there, there wasn't anyone else in the field and they were running away with it. This has blunted that program so that we now have about twice as many reservations as the British and French.

Mr. OSTERTAG. Contracts?

Mr. HALABY. No, sir. I will explain that these are not orders. We call them reservations. They are really options to purchase. They make a $100,000 deposit. They get no interest on their money.

Mr. BOLAND. Do they lose the deposit?

Mr. HALABY. They lose the deposit after November 1965, if they do not add another $100,000 at that point. They can recall it at any time up to then, but we are getting a number of complaints from those who do not like the delivery that has been allocated and they say we should never be doing this. And I say we will do it only for two reasons, to blunt the British-French sales effort and second, to set up a delivery schedule that is in the taxpayer's interest.

You say, "Who are you to judge what is in the taxpayer's interest?"

I say that one of the reasons for doing this program is to maximize our exports. So that this list is designed, sir, so as to get the maximum number of foreign sales across the Atlantic and across the Pacific.

The second reason is to show that this country can sell these aircraft, and incidentally, we did this with the full concurrence of the manufacturers. They were kind of relieved that we set up such a list, which they agreed with, so that they wouldn't have to do so painfully at a later date.

Mr. OSTERTAG. Isn't the Concorde going to be available on the market long before this development is achieved?

Mr. EVINS. No; it has been delayed.

Mr. OSTERTAG. The point is that many, or at least several American companies have negotiated business with them; isn't that true:

Mr. HALABY. Yes, sir. TWA, American, and Continental at least have placed reservations with the British-French combination, but we understand their total of reservations to be six or seven, and BOAC and France, with the concurrence of the British and French Governments, came in 2 weeks ago and handed me two checks for a total of $1,200,000.

The second thing, sir, that has occurred is that the manufacturers have formally and officially said that they could not and would not meet 25 percent of the cost of phase 3.

ADDITIONAL FUNDS AND AUTHORIZATION FOR SST

Mr. OSTERTAG. Just one more question: Last year when you requested the $60 million which we approved, did you at that time indicate or have in mind that you would require additional funds in fiscal year 1965?

Mr. HALABY. This is a very difficult question to answer. I believe I indicated informally to you—I don't recall exactly the testimony, but I believe in informal conversations I might and probably did say to you sir, that there would probably be need for a request in the fiscal year 1965 period to fund—to forward fund—the construction for the two test airplanes so that there wouldn't be any delay in the competition with the British and the French. And the President, President Johnson, not having ruled on this program since he became President, of course, is free to make whatever kind of request he decides upon.

It is possible in the light of the situation as we see it now, to go through this detailed design phase and if the Congress would act as early as April 1 of next year, could go on into phase 3 without losing any appreciable time.

Mr. OSTERTAG. What do you mean if Congress should act?

Mr. HALABY. If they would authorize and appropriate for what is estimated to be about $175 million in the first fiscal year of construction, that is, fiscal year 1966. Then it could go ahead and keep on schedule.

Mr. OSTERTAG. I think the Committee on Interstate and Foreign Commerce, as a result of their hearings on this question, determined that you had complete authority under the basic act to proceed with this development without any additional authority. Is that right?

Mr. HALABY. Chairman Harris held hearings and he listened to our statement and our General Counsel's opinion that there is in the Federal Aviation Act full authority to proceed, he discussed with the Parliamentarian whether a point of order would lie against the $60 million. The Parliamentarian felt no point of order would lie against the appropriations bill. The Commerce Committee expressed no objection and we took silence as confirming our authority to proceed. Some of the Senators, on the other hand, feel it would be desirable to have an authorizing bill. Others feel that it is unnecessary to have an authorizing bill. Of course, that is up to the Congress.

Mr. OSTERTAG. Do you mean that would be beyond the $60 million?

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. From this point it might well require congressional authorization?

Mr. HALABY. The Congress might desire to have a formal authorization. It is not required.

Mr. OSTERTAG. Where does that leave us? Suppose you were here requesting another $60 million? Under the circumstances we would be in the dark as to whether we were right or wrong in making it available. I thought the whole issue was clear.

Mr. EVINS. It is always good to discuss this subject with you, sir, but it is moot in that there are no funds requested for the supersonic, at this time, and that is what I alluded to earlier. There could be a supplemental submitted later. But there are no funds in this budget at this time.

Mr. OSTERTAG. I am aware of that.

Mr. EVINS. Mr. Wyman.

AMERICAN SUPERSONIC TRANSPORT VERSUS CONCORDE

Mr. WYMAN. Mr. Halaby, are the proposals that have come in and that you are in the process of evaluating now—remembering the discussions last year with respect to a mach 3 or a mach 2—looking for an aircraft that is substantially superior to the Concorde, if it should go into production?

Mr. HALABY. If these aircraft are economically sound—that is if they will make money for the airliners who operate them—there is no question but what they are technically superior. First, they are faster. The limit of the Concorde is about mach 2.2 and even at that speed, extended cruising day after day, week after week, they will have to prove that aluminum will withstand it. Second, they are larger. The least seat capacity is 160 seats. The most is 220. Third—and these are published data, sir—the third, and I think the point that attracts the airlines who have made the reservations with us, is that the range is quite a bit longer. Our manufacturers have made or exceeded the requested range of 4,000 miles.

Now, Mr. Evins mentioned a moment ago that the Concorde was in some trouble, and there is a recent speech from the Britisher who is on the committee developing this Concorde that suggests he is trying to get more thrust out of the engines, larger wing area so that more fuel can be carried to get the longer range. We do not know but we are assuming that they are doing an outstanding job so we must, you might say, do our most outstanding work, but technically and operationally they appear to be—the best of these proposals appears to be substantially better than the French-British job.

Mr. WYMAN. Have you arrived at an opinion yourself with respect to whether there should be any reduction in the contribution from private industry in the percentage, from 25 to 15 or 15 or 10?

Mr. HALABY. I guess my personal opinion does not matter. It is what the President's decision is and what the Congress' decision is. There is one very important thing to consider in the equation. If you will recall we had a kind of situation where there were three parties. The airlines who would buy and operate the airplane and charge the

travelers for their tickets; the manufacturer who would build the airplane and deliver it to the airlines; and the Government. The principle of the proposal is a sound one, I think, in that the man who stands to gain profit from its sale should risk some of his money. That is our democratic capitalistic free services system. And usually the rule of thumb in business is you risk in accordance with your expected yield.

MARKET FOR SST

We think there will be at least a $6 billion market. Two hundred airplanes at around $30 million apiece. So he should risk something.

The taxpayer should risk something also because as Mr. Ostertag said, no individual corporation has $1 billion to risk on this. But both he and we the taxpayers get it back from the beneficiaries, the airlines and their travelers.

Mr. OSTERTAG. On royalties.

RETURN ON INVESTMENT

Mr. HALABY. Yes, sir. You might be skeptical. How would we ever get it back? I cite you two programs. The Vickers Viscount was handled this way. It is my understanding that the British Government got back its development cost and Vickers got back its total cost, plus a profit; and I have even heard, though, it was never confirmed, that the Government got a little bit of its interest on the money back. I do not know that. It would be hard to prove. We have a device, Mr. Blatt over here has developed a device, that is now being sold by the manufacturer who enjoyed FAA's investment and we are receiving royalties back from the sales to private buyers of that navigational device. So those who say it is impossible for a government ever to do anything right or to do anything in a hard, businesslike way, are just wrong, as proved by those two cases.

Now, if you believe that the royalty system is going to work, then the proportion of manufacturer's money is not as important as if you do not believe we will get it back. If you think it is going to be a flop, well, first you should not do it, but if you do, it is clear that no manufacturer is going to invest stockholders' money in a flop, and then Government would be left holding the bag.

Mr. WYMAN. If this program is ever to become a reality, assuming the evaluations show practicability, and the commercial side of it works out, this question of what the participation is to be is going to be upon us and pretty soon; is it not?

Mr. HALABY. Yes, sir. I think some of the Senators feel that before we go beyond phase 2 that the Congress should write the formula.

In other words, it should say, "We authorize not to exceed $1 billion, or $750,000 million, to be spent for the development of the supersonic transport, and the private manufacturers should contribute not less than so-and-so and so-and-so."

I guess the people who would manage such a program, and I know the industry, would not be pleased with such a rigid formula.

Mr. OSTERTAG. Perhaps we should have done that last year.

Mr. HALABY. Well, as you know, the $60 million has not been spent and it will be spent only if the evaluation, as we said before, proves that it is technically sound, economically feasible.

Mr. EVINS. All of this discussion has been very helpful and it has been informative for the members.

AGENCY TO ADMINISTER SST PROGRAM

My personal view is if we are going to go forward with this program, and this committee has already initiated it, we should not go up the hill and down the hill, we should make a firm decision and stand by it; that if we are to go forward with it, it should be under Federal Aviation Agency administration because the Department of Defense has indicated no enthusiasm for it and NASA is engaged in other activities and other work and anything succeeds, in my formula, depending upon the individual. And if you have an agency that is wrapped up in it and is enthusiastic about it and believes in it, then you can almost guarantee success. But if you have some agency that is not dedicated and not committed, then it might really be a flop and a waste. I think it is properly lodged, in my own view, in the right agency. Others may disagree.

Mr. BOLAND. Is it so that Defense is not interested any longer, or is Defense really interested now?

Mr. HALABY. Mr. Boland, I have had various discussions with the Secretary of Defense and he does not have in his current list of requirements a supersonic transport.

The moment we get the U.S. Government into buying commercial transport airplanes, we are up to not our hips, but over our ears in the thing. I do not regard it a procurement program.

Mr. BOLAND. The Congress is not going to make the final judgment here. Won't the President make the final judgment on what agency will handle this problem?

Mr. HALABY. Of course. The President in the present state of affairs, within the present laws and appropriation bills, would make the decision as to where he wanted to administer such a program.

Mr. OSTERTAG. I thought you were responsible and I thought it was delegated to FAA. Isn't that clear yet?

Mr. HALABY. At this time I am responsible for the program; yes, sir.

Mr. OSTERTAG. He has the authority under the law?

Mr. HALABY. Not only under the law, but by virtue of the President's determination.

Mr. EVINS. May I read a letter which I saw in the New York Times yesterday? It is related to this subject. It is written by Mr. William Barclay Harding.

It says:

> Both the Department of Defense and NASA for their own reasons are spending a great deal of money on the development of materials and components without which there could be no supersonic transport.

They have work that is complementing this and the article recommends the projects go forward and that FAA is the logical Agency. It is from an investment banker in New York and it can be included in the record at this point.

(The article follows:)

SUPERSONIC AIRCRAFT—COST OF FURTHER DEVELOPMENT DECLARED BEYOND INDUSTRY'S MEANS

To the Editor of the New York Times:

As a member of the Supersonic Transport Advisory Group appointed by Federal Aviation Administrator Halaby on November 21, 1961, I was exposed to all aspects of the program between the date of my appointment and May 15, 1963, when the Advisory Group turned in its report. Your editorials opposing Government-financed SST development have stimulated me to call the following facts to your attention:

Throughout the history of the United States early development and service testing of aircraft have mostly been financed by the Government through the military budget or through the National Advisory Committee on Aeronautics (NACA), now a part of the National Aeronautics and Space Agency (NASA).

This development was undertaken primarily for reasons related to national defense. When the development was sufficiently advanced, the aircraft manufacturers and the airlines applied it to the manufacture of commercial aircraft.

BEFORE COMMERCIAL PRODUCTION

The development of supersonic aircraft has not yet reached a point which would justify the manufacturers and the carriers applying it to the commercial production of SST aircraft. Further development is required and the cost of such development is beyond the means of the manufacturers and the airlines.

Both the Department of Defense and NASA, for their own reasons, are spending a great deal of money on development of materials and components, without which there could be no supersonic transport.

The Secretary of Defense and the Director of NASA do not wish to spend the additional amount required to build a flying prototype because they are concerned that Congress would take the necessary funds out of appropriations required for higher priority items—hence the SST (supersonic transport) project was assigned to FAA with the "subsidy" label clearly affixed to it.

Commercial transport aircraft have been among our most important exports in recent years. These exports have helped our balance of payments and their manufacture and sale have contributed importantly to the national economy. The SST project is urgent because our leadership is being challenged by other nations. It is important that the United States be in the forefront of commercial air transport development, whatever course it may take.

CONNOTATION OF SUBSIDY

Subsidy in this country is associated in the public mind with political support of unsound projects and unwarranted Government interference in private enterprise.

Because it has devised a theoretical formula for getting back the Government's investment, the FAA contends that subsidy is not involved in this program.

Certainly the Government does not lack the means of extracting its share of the profits of any successful venture; but there is no way of recouping the Government's investment in an unsuccessful project. Most authorities agree that this project will be successful if aggressively pursued and properly managed.

The factor which should concern us most now is the time factor. If we procrastinate too long, we shall either have to spend a lot more to make up for lost time, or we shall risk missing the market altogether.

WM. BARCLAY HARDING.

NEW YORK, *February 20, 1964.*

The writer of the above is an investment banker.

SONIC BOOM TESTS AT OKLAHOMA CITY

Mr. JONAS. Are any of these tests you are making in Oklahoma connected with this?

Aren't you running into a little trouble out there?

Mr. HALABY. Yes, sir. We will report on this program. One of the technical and operational problems of the supersonic transport is the phenomenon called the sonic boom. Whenever an aircraft exceeds approximately 100 percent of the speed of sound which at sea level is 765 miles an hour at 60° F., which is about 660 miles an hour at 30,000 feet, it emits or radiates a sound wave or pressure wave and that wave goes to the ground in the form of a sound that is like thunder. When you reach 1 pound per square foot, it is like distant thunder. When it is 1½ pounds per square foot, it is like near thunder and at 2 pounds per square foot, it is like a thunder clap right in the vicinity. At 3-plus pounds per square foot you break plate glass windows and china and plaster.

If one knew that aircraft operating across the United States would make more than 2 pounds per square foot, it would inhibit and perhaps even deter the project.

We made some tests 2 years ago, very brief and sporadic tests in the city of St. Louis. The Air Force boomed St. Louis, I think with some B–58's. Subsequently we made tests out in the desert at Edwards Air Force Base where we boomed structures and airplanes and, incidentally, Mr. Bair, we took Mr. Black and his committee out there. It was felt that we needed a more current, live test in a major metropolitan area. We went down and discussed it with the leaders of the city of Oklahoma City, their public officials and their private community leaders and they said, "Fine. We are willing. This is an air-minded city. It is a pioneering kind of city."

We worked up a program extending over 26 weeks, starting out with 1 pound per square foot by an Air Force fighter. We instrumented several houses to have a reference point to see whether any plaster was really being broken and so on, and so forth. We have some psychologists and opinion gatherers down there. We have had the cooperation of the community and we have been at it now some 3 weeks.

The day before yesterday the city council which had previously declined a motion to resolve to discontinue these tests, voted a tentative resolution that the FAA cease and desist. We have not received that resolution and we understand that other parts of the community are now protesting this resolution.

We have had one, as of my last knowledge, lawsuit. A petition for injunction by a man, I think he is a local plumber, who incidentally ran against Senator Monroney in the primary of 1962 and his petition says that his daughter's hearing was impaired by these 1-pound-per-square-foot booms. We have a man on the spot to receive claims. As far as I know we have not had a formal claim for damages and at the 1-pound-per-square-foot level we believe we can prove that the boom would not cause damage or injury.

Mr. JONAS. The plane you have in mind, what would it produce?

Mr. HALABY. We propose that it not exceed 1½ pounds per square foot.

Mr. WYMAN. Is there any possibility that after you went through your $1 billion, if it was to cost that figure and actually produced a supersonic transport, and found that in flight there might be enough of a boom problem developed to render it economically unfeasible, it is possible that you could not have tested this out in a wind tunnel or otherwise?

Mr. HALABY. I could not guarantee, Mr. Wyman, that this could not happen. I can say that all of the tests so far—and they are very extensive—both in wind tunnels at NASA, at Ames, and at Langley where they have extrapolated data, the military flights, all of the manufacturers' estimates are that 1½ pounds, which will be like thunder, would be the maximum that it should be designed to make in climb and cruise and that that would be tolerable.

What the public will tolerate in 1975 is awfully hard for any individual to gage in 1964.

SUMMARY OF BUDGET ESTIMATES

Mr. EVINS. This has all been very fine and we thank you very much. Let us now get into the working parts of the budget.

TOTAL FAA EMPLOYMENT AND PERSONNEL COSTS

We will place in the record, Mr. Reporter, page 2, volume 1; this is the summary sheet on personnel.

(The page follows:)

Schedule of permanent positions

Grade	1964		1965	
	Department	Field	Department	Field
Statutory	2		2	
Special	18	3	18	3
Scientific	11	4	11	4
GS-18	5	3	5	3
GS-17	28	6	26	6
GS-16	58	45	56	45
GS-15	411	320	379	316
GS-14	703	1,556	561	1,525
GS-13	513	4,287	375	4,247
GS-12 and below	2,007	37,131	1,717	37,058
Total	3,756	43,355	3,150	43,207
Operations	3,392	39,587	2,816	39,570
Research and development	169	1,110	139	950
Facilities and equipment		1,925		1,925
Operation and maintenance, Washington National Airport	69	314	52	314
Operation and maintenance, Dulles International Airport	34	408	51	437
Construction, Washington National Airport	12		12	
Construction, Dulles International Airport	2		2	
Civil supersonic aircraft development	78	11	78	11
Total	3,756	43,355	3,150	43,207

Total cost of personal services

	1964	1965
Operations	$401,301,000	$418,398,600
Research and development	12,891,600	12,825,700
Facilities and equipment	15,853,000	17,480,144
Operation and maintenance, Washington National Airport	2,583,900	2,567,600
Operation and maintenance, Dulles International Airport	2,696,400	3,214,000
Construction, Washington National Airport	119,608	125,601
Construction, Dulles International Airport	19,763	20,203
Civil supersonic aircraft development	639,000	1,465,000
Total	436,104,271	456,096,848

GENERAL STATEMENT

Mr. EVINS. The general statement on pages 4, 5, 6, and 7 will be included.

(The pages follow:)

GENERAL STATEMENT

Aeronautical services are provided by the Federal Aviation Agency under authority of several statutes, the more important of which are identified below:

1. The Federal Aviation Act of 1958 created the Federal Aviation Agency and provides for the regulation and promotion of civil aviation so as to foster its development and safety and to assure the safe and efficient use of the airspace by both civil and military aircraft.

2. Public Law 674, 76th Congress, authorizes the operation of the Washington National Airport, and Public Law 762, 81st Congress, authorizes the construction and operation of Dulles International Airport.

3. Public Law 377, 79th Congress, Public Law 211, 84th Congress, Public Law 86-72, and Public Law 87-255 provide for Federal aid in the development of public airports.

4. The International Aviation Facilities Act enacted to encourage the development of an international air transportation system adapted to the needs of the foreign commerce of the United States, of the postal service, and of the national defense, and for other purposes.

The declaration of policy for the Administrator, which is section 103 of the Federal Aviation Act, summarizes effectively the objectives we wish to attain.

SEC. 103. In the exercise and performance of his powers and duties under this act the Administrator shall consider the following, among other things, as being in the public interest:

(*a*) The regulation of air commerce in such manner as to best promote its development and safety and fulfill the requirements of national defense;

(*b*) The promotion, encouragement, and development of civil aeronautics;

(*c*) The control of the use of the navigable airspace of the United States and the regulation of both civil and military operations in such airspace in the interest of the safety and efficiency of both;

(*d*) The consolidation of research and development with respect to air navigation facilities, as well as the installation and operation thereof;

(*e*) The development and operation of a common system of air traffic control and navigation for both military and civil aircraft.

In performing services essential to present-day aviation and its growth, the Agency operates and maintains a national network of air navigation aids and controls civil and military air traffic 24 hours a day; regulates the use of navigable space; certifies as to the competency of airmen and airworthiness of aircraft; procures and installs improved aids to the air navigation; conducts research and development to improve and modernize aviation facilities and procedures; administers a Federal grant-in-aid program for a national system of airports; promotes and regulates the mental and physical fitness of airmen; conducts aviation medical research; constructs and operates airports in the National Capital area and certain other special locations; and carries on other related activities designed to promote air commerce and safe and efficient aviation.

The enactment of the Federal Aviation Act and the creation of the Federal Aviation Agency have provided the framework and authority needed to deal effectively with the needs of aviation. The effectiveness of these measures are, however, dependent upon the continued provision of the resources required to keep pace with an evermore demanding job. Beginning in 1957, the level of appropriation for functions now carried on by the Federal Aviation Agency has been increased to provide facilities and services at a rate which has permitted substantial and encouraging progress in improving and augmenting present air navigation and traffic control systems and in rendering services essential for safety and efficiency in air operations.

Further, the role of the Federal Government with respect to research and development has been recognized and implemented with appropriations support. This concerted effort must be continued and its success is also heavily dependent on the availability of adequate resources.

Aviation is one of the major industries of the United States. The workload of the Federal Aviation Agency as generated by this industry is not controllable by the Agency, but in large measure results from the requirements associated with air-defense and with the growth of civil aviation. Increasing density of air traffic and the increasing use of high performance aircraft pose serious problems, and we must be continuously increasing our capabilities to handle the workload. All Agency workload indicators continue to reflect increases in 1965 and 1963. Some of the more significant of these are: an increase of 11 percent in aircraft operations at FAA towers; a 6-percent increase in IFR aircraft handled through air route traffic control centers. Another indicator of aviation activity is that of fuel consumed, as this is a reflection of the numbers of aircraft in the system as well as the size and complexity of the aircraft. This indicator reflects a 15-percent growth in 1965 over 1963. It is also expected that the public will fly 53 billion passenger miles in 1965, which is an increase of 15 percent over 1963.

The 1965 request contains estimates for all Agency appropriations except those for civil supersonic aircraft development and for new obligational authority for Federal aid to airports. No additional funding is being requested for the supersonic program until completion and evaluation of the design phase of the program. For the grant-in-aid program, the 1965 request contains $7 million for funds to liquidate obligations incurred under contract authorization previously approved. However, no funds have been requested at this time for new obligational authority for the 1965 program. At present, enabling legislation is before the Congress which will authorize a continuation of the Federal-aid-to-airports program for the years 1965 through 1967. As soon as this legislation is enacted, a request will be transmitted to the Congress for additional funding for the years 1965 and 1966. This would again get the Agency on a 2-year advance funding basis.

The budget presented herein is intended to meet the ever-continuing demands of the aviation industry and of the military for air traffic control and navigation services. However, through the improvement of manpower utilization, the Agency hopes to effect economies which will reduce to a minimum the requirements for the proper execution of responsibilities placed upon this Agency. For those appropriations for which funds have been requested in both 1964 and 1965, the Agency is requesting $15 million less in 1965 than was appropriated in 1964. In addition, the estimate contains a request for over 750 fewer positions than will be required in fiscal year 1964.

These estimates, which have been prepared to reflect the firm requirements for meeting the Agency's statutory responsibilities, are influenced by the following principal factors:

Commissioning certain new facilities and services authorized for establishment under prior years' "Facilities and equipment" appropriations.

2. Savings in manpower and cost associated with the Washington staffing reduction and with planned improvements in employee productivity.

3. Implementation of the revised pay scale under phase II of the Federal Salary Reform Act of 1962.

4. Continuing effort in research, development, and testing to improve the equipments and techniques being utilized in assuring safety in aviation.

5. Establishing additional facilities in phase with the Federal Aviation Agency long-range program.

In the discharging of Agency responsibility, the Federal Aviation Agency must be responsible to the needs of the aviation activity of the Nation. The following data reflects some of the activity which has an impact upon the Agency workload and which has had an impact upon Agency estimates contained in this submission.

SUMMARY OF APPROPRIATIONS

Mr. EVINS. We have discussed this at length but we will go over some of the items hurriedly. The number of permanent positions in operation for 1964 is shown at 42,979, and for 1965, 42,386, or a difference of 593 positions. This is page 9. There is a decrease of 593 positions in operations, whereas the appropriation is up from $528 to $549 million, or a $21 million increase.

I believe this has been attributed in part to the pay raise increase. Are these other factors beyond that? Salary increases, in-grade promotions.

Mr. HALABY. Yes, sir. The other item is $11.7 million for maintaining and operating new facilities coming into our system as the result of prior year purchases with prior year "Facilities and equipment" appropriations, and the assumption of costs for military facilities transferred to FAA for common system use.

Mr. EVINS. The facility budget is reduced from $100,250,000 to $75 million, or a decrease of $25,250,000.

Mr. HALABY. Yes, sir.

Mr. EVINS. The research and development budget is up $2 million as previously discussed.

Then regarding the Washington National Airport, the number of permanent positions remain the same. But here again we have an appropriation estimate increase from $3,581, to $3,631, or about a $50,000 increase.

Mr. OSTERTAG. That is primarily due to the pay raise, is it not?

Mr. ALEXANDER. That is correct.

COMPARISON OF 1964 AND 1965 BUDGETS

Mr. EVINS. Insert the summary of budget estimates on pages 9 and 10.

(The pages follows:)

Summary of budget estimates, fiscal year 1965

Appropriation	1964	1965	Difference
Operations:			
Number of permanent positions	42,979	42,386	−593
Appropriation or estimate	$528,000,000	$549,000,000	+$21,000,000
Facilities and equipment:			
Number of permanent positions	1,925	1,925	
Appropriation or estimate	$100,250,000	$75,000,000	−$25,250,000
Research and development:			
Number of permanent positions	1,279	1,089	−190
Appropriation or estimate	$40,000,000	$42,000,000	+$2,000,000
Operation and maintenance, Washington National Airport:			
Number of permanent positions	417	417	
Appropriation or estimate	$3,581,500	$3,631,000	+$49,500
Operation and maintenance, Dulles International Airport:			
Number of permanent positions	408	437	+29
Appropriation or estimate	$3,985,000	$4,619,000	+$634,000
Construction, Washington National Airport:			
Number of permanent positions	12	12	
Appropriation or estimate	$2,075,000	$1,800,000	−$275,000
Construction, Dulles International Airport:			
Number of permanent positions	2	2	
Appropriation or estimate	$450,000	$200,000	−$250,000
Civil supersonic aircraft development:			
Number of permanent positions	89	89	
Appropriation or estimate	$60,000,000		−$60,000,000
Grants-in-aid for airports (liquidation of contract authorization): Appropriation or estimate	$20,000,000	$7,000,000	−$13,000,000
Total, all appropriations:			
Number of permanent positions	47,111	46,357	−754
Appropriation or estimate	$758,341,500	$683,250,000	−$75,091,500
Grants-in-aid for airports: Appropriation or estimate	[1] $75,000,000		−$75,000,000

[1] $75,000,000 appropriated in permanent legislation for 1964. Legislation for 1965 proposed for separate transmittal.

Mr. EVINS. The operation of the Dulles International Airport goes up in personnel and in amounts; 408 people are employed out there and you are projecting 437 people for next year, 1965, or a 29 increase in positions.

Mr. HALABY. Part of that, sir, is pay raise and part of it is 29 additional people to maintain the airport. We budgeted fewer than Mr. Hobbs has found that he needed.

Mr. EVINS. We will go into the details of the Dulles Airport later.

Washington National Airport, the positions remain the same. Construction at Dulles remains the same. On the supersonic transport program you are employing 89 people. This is under the direction of Mr. Gordon Bain.

Mr. OSTERTAG. I don't mean to return to the supersonic issue, but I notice here it shows an assignment of 89 positions. I thought you gave a higher figure than that.

Mr. HALABY. I gave the figure of 210 temporarily assigned from January 15 to about March 15 for evaluation. They are all assigned by other Government agencies.

Mr. OSTERTAG. They are not on your payroll?

Mr. HALABY. No, sir; they are not.

Mr. OSTERTAG. But there are 89 directly for permanent positions?

Mr. HALABY. Yes. Our actual employment is lower than that. We only have 28 people now at the end of January and we seek authorized strength of 89 and that would not be reached until later in the year.

Mr. EVINS. Grants-in-aid for airport liquidation funds is shown at $7 million as against $20 million last year or a reduction of $13 million. We understand additional legislation in this field will be considered perhaps during this session and this was another item that indicates there might subsequently be a supplemental.

Mr. HALABY. We understand there is a possibility of the Senate and the House taking the matter up tomorrow, but we don't know. The conferees agreed last night.

Mr. OSTERTAG. You mean on the airport bill?

Mr. HALABY. The Federal airport bill. We hope we will be able to present the case before you make your report.

Mr. OSTERTAG. That legislation is necessary to be enacted into law before we could make the supplemental funds available.

Mr. HALABY. Yes, sir.

Mr. EVINS. The item referred to liquidation of contract authorization and the other would be new authorization.

This brings us again to the number of permanent positions reduced from 47,111 to 46,357 or a reduction of 754 for a total appropriation estimate of $683,250,000 as against $758,341,500 for last year, or a reduction of $75 million.

The supersonic transport, the grants-in-aid to airports and contract liquidations are the items that make up the reductions whereas other items are increased.

We will move into operations.

OPERATIONS

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
	FEDERAL AVIATION AGENCY			
11	Personnel compensation:			
	Permanent positions	312,510	348,963	365,563
	Positions other than permanent	2,065	2,097	1,929
	Other personnel compensation	19,649	22,918	22,134
	Total personnel compensation	334,224	373,978	389,626
12	Personnel benefits	24,701	27,323	28,773
21	Travel and transportation of persons	16,065	17,624	17,310
	Payment to interagency motor pools	855	928	950
22	Transportation of things	5,835	6,145	6,346
23	Rent, communications, and utilities	41,493	27,390	28,825
24	Printing and reproduction	1,380	1,320	1,330
25	Other services	13,976	15,691	15,318
	Services of other agencies	2,963	3,846	3,966
26	Supplies and materials	27,925	28,599	29,794
31	Equipment	8,674	6,922	5,942
32	Lands and structures	154	102	111
42	Insurance claims and indemnities	57		
	Subtotal	478,302	509,868	528,291
	Deduct quarters and subsistence charges	763	892	900
	Total, Federal Aviation Agency	477,539	508,976	527,391
	ALLOCATION TO DEPARTMENT OF DEFENSE			
11	Personnel compensation:			
	Permanent positions	78	238	
	Other personnel compensation	3	4	
	Total personnel compensation	81	242	
12	Personnel benefits	5	17	
23	Rent, communications, and utilities	2,521	18,600	21,609
25	Other services	3		
26	Supplies and materials	22	29	
31	Equipment	13		
	Total, Department of Defense	2,645	18,888	21,609
	Total obligations	480,184	527,864	549,000

Personnel summary

	1963 actual	1964 estimate	1965 estimate
FEDERAL AVIATION AGENCY			
Total number of permanent positions	41,912	42,979	42,386
Full-time equivalent of other positions	423	387	363
Average number of all employees:			
Civilian	40,131	41,567	41,595
Military	96	68	65
Employees in permanent positions, end of year:			
Civilian	40,658	41,324	41,390
Military	107	71	68
Employees in other positions, end of year	743	502	502
Average GS grade	9.6	10.0	10.0
Average GS salary	$8,192	$8,982	$9,141
Average salary of ungraded positions	$6,300	$6,492	$6,562
ALLOCATION TO DEPARTMENT OF DEFENSE			
Total number of permanent positions	41	41	
Average number of all employees	14	41	
Employees in permanent positions, end of year	36	0	
Employees in other positions, end of year	0	0	
Average GS grade	5.9	5.9	
Average GS salary	$5,558	$5,843	

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Operation of traffic control system	189,414	209,790	217,054
2. Facility installation and technical support	70,015	70,981	74,147
3. Facility maintenance of traffic control system	125,518	139,522	148,673
4. Administration of flight standards program	74,105	84,471	85,710
5. Administration of medical standards	3,888	3,950	4,195
6. Research direction	9,759	10,799	10,187
7. Administration of airport program	7,485	8,351	9,034
Total obligations	480,184	527,864	549,000
Financing: Unobligated balance lapsing	8,003		
New obligational authority	488,187	527,864	549,000
New obligational authority:			
Appropriation	488,930	528,000	549,000
Transferred to "Operating expenses, Public Buildings Service," General Services Administration (76 Stat. 728 and 77 Stat. 436)	−743	−136	
Appropriation (adjusted)	488,187	527,864	549,000

Mr. Evins. Mr. Reporter, place the table on page 22, and pages 23 through 29 in the record.

(The pages follow:)

General Statement

This estimate provides for the continuing requirements for the Federal Aviation Agency, primarily: (1) the operation on a 24-hour daily basis of a national air traffic management system; (2) the maintenance of a national system of aids to air navigation, and the direction and engineering for the establishment of air navigation facilities; (3) flight standards activities to assure compliance with the civil air regulations designed to assure safety in aviation; (4) the development of standards, rules, and regulations governing the physical fitness of airmen, and the direction and administration of an aviation medical research program; (5) the direction, evaluation, and administration of the research and development program; and (6) the Federal efforts to develop a national system of airports, including supervision of grants-in-aid for airport construction.

The 1965 estimates for the "Operations" appropriation are designed to effectively fulfill the Agency's responsibilities outlined above and to assure public safety as it is affected by aviation. A determined effort has been made, however, to accomplish these objectives as economically as possible, both in terms of staffing and funding resources.

The following table reflects the program as proposed in this budget:

	1964	1965	Difference
Positions	42,979	42,386	−593
Amount (in millions)	$527.9	$549.0	+$21.1

Specifically, the 1965 Agency estimates reflect a staffing decrease of 593 positions from 1965. This reduction in staffing is to be accomplished through concerted management efforts to improve employee productivity and to eliminate all but essential operations. To this end the Agency has curtailed Washington headquarters staffing by a total of 610 positions, deleted more than 1,000 positions for continuing activities in regions and field establisments in anticipation of increased employee productivity, and has not requested new positions for additional workload arising from increased aviation activity. Thus, despite the added requirements associated with the commissioning of new facilities, the Agency estimates have for the first time since 1954 shown a reduction in positions from those required in the previous year.

The funding request for 1965 reflects an additional requirement of $21 million. This amount is needed to finance the operating and maintenance costs of new facilities which are to become operative during fiscal year 1965. The request also includes additional funding to finance phase II of the salary increases authorized under the Salary Reform Act of 1962. Because of a manpower savings identified above, and through other economies in overtime, training, travel, and aircraft operating costs, the Agency has been able to offset all added costs associated with the continuation in 1965 of the new facilities and programs started in 1964 and added salary costs arising from the reclassification of employees to higher grades and within-grade salary increases effective in 1965. The following table highlights the major areas of change affecting the fiscal year 1965 request for funding of the operations appropriation.

	In millions
1964 appropriation (adjusted for GSA transfer)	$527.9
New programs	11.7
Phase II pay increases	9.3
Other pay adjustments	5.8
Other cost adjustments	—5.7
1965 request	549.0

The new programs, amounting to $11.7 million, involve the assumption of operating and maintenance costs associated with 10 long-range radars, 8 of which are currently operated by the Department of Defense, which will be used on a common-system basis for both civil and military purposes in fiscal year 1965. Also included under the new program are necessary resources for the maintenance and operation of towers and other terminal facilities to be commissioned during 1965 and which have been funded under congressional approval granted in prior years under the facilities and equipment appropriations. The important new facilities that will be commissioned, including those military facilities which will be transferred to FAA during 1965, are the following:

	Number
Long-range radars	10
Terminal radars	6
Air traffic control radar beacons	33
Traffic control towers and combined station/tower	20
Remote air-ground peripheral communications outlets	25
Doppler direction finder equipments	103
Limited remote communications outlets	29
Short-range navigation facilities	247
Instrument landing systems	8
Approach light systems	22
Runway end identification lights	32
Visual approach slope indicators	12
Low/medium frequency facilities	12

The other major cost element requiring increased funds in our 1965 request for this appropriation is phase II of the Salary Reform Act of 1962. General salary increases which went into effect in January of 1964 add $9.3 million to the Agency's "Operations" appropriation requirements.

This estimate also includes four positions and associated funding for emergency procedures functions assigned to the FAA by Executive Order 11003, dated February 16, 1962. These functions were funded in 1964 by an allocation from the Office of Emergency Planning.

In summary, this operations appropriation estimate is geared to the proper fulfillment of the Agency's responsibilities in meeting the demands for service arising from the civil and military aviation community. The estimates have undergone careful scrutiny, reflecting major economies already instituted and demanding further stringent cost-reducing actions. They strike a prudent balance between achievement of cost reductions and maintaining adequate levels of service to assure safety and efficiency in the air transportation system.

Summary of program requirements by activity

Activity	1964 appropriation		1965 estimate		Difference	
	Positions	Amount	Positions	Amount	Positions	Amount
Operation of traffic control system	20,069	$209,790,000	19,965	$217,054,000	−104	$7,264,000
Facility installation and technical support	3,288	70,981,000	3,056	74,147,000	−232	3,166,000
Maintenance of traffic control system	11,449	139,522,000	11,611	148,673,000	162	9,151,000
Administration of flight standards program	6,239	84,471,000	5,956	85,710,000	−283	1,239,000
Administration of medical standards	277	3,950,000	277	4,195,000		245,000
Research direction	911	10,799,000	790	10,187,000	−121	−612,000
Administration of airport program	746	8,351,000	731	9,034,000	−15	683,000
Subtotal	42,979	527,864,000	42,386	549,000,000	−593	21,136,000
Transfer to GSA for space rental		136,000				−136,000
Total	42,979	528,000,000	42,386	549,000,000	−593	21,000,000

Operation of Air Traffic Control System

Mr. Evins. The first activity is operation of the traffic control system. Insert the pages 15 and 16.

(The pages follow:)

Operation of traffic control system

	1964 appropriation		1965 estimate		Difference	
	Positions	Amount	Positions	Amount	Positions	Amount
Operation of air route traffic control centers	6,950	$71,787,000	6,945	$71,970,000	−5	$183,000
Operation of airport traffic control towers	6,248	64,710,000	6,375	69,512,000	127	4,802,000
Operation of flight service stations	4,616	42,083,000	4,579	44,617,000	−37	2,534,000
System supervision and services	685	10,496,000	627	10,135,000	−58	−361,000
Direction, planning, and evaluation	331	3,963,000	238	3,429,000	−93	−534,000
Centralized training program	203	3,219,000	186	3,154,000	−17	−65,000
Staff and supporting services	1,036	13,532,000	1,015	14,237,000	−21	705,000
Total	20,069	209,790,000	19,965	217,054,000	−104	7,264,000

Operation of traffic control system

	Change from 1964	
	Positions	Amount
New program:		
Operation of air route traffic control centers	86	$327,000
Operation of airport traffic control towers	169	641,000
Flight service stations	7	26,000
Centralized training		66,000
Total, new program	262	1,060,000
Phase II pay adjustments		4,751,000
Other pay adjustments		2,481,000
Other cost adjustments	−345	−1,733,000
Staff and supporting services	−21	705,000
Total changes	−104	7,264,000

General Justification

This activity covers the operation of a national system of air traffic control and flight service facilities on a 24-hour basis to assure safety, reliability and regularity of all weather flight operations. In fiscal year 1963, this system controlled a daily average of 80,000 landings and takeoffs; 27,900 instrument rule flights; and 52,900 flight services. In addition, the system was responsible for the safety of an average of 193,700 revenue passengers daily in the United States.

Principal air traffic control and flight service facilities whose operations are financed by this estimate are:

	Operating June 30, 1963	Operating June 30, 1964	Operating June 30, 1965
1. Air route traffic control centers for the control of air traffic under instrument flight rule conditions over extensive geographical areas:			
Air route traffic control center	28	27	24
Combined center/tower	1	1	1
Combined center/radar approach control	3	3	3
Long-range radar [1]	72	[2] 82	92
Center computer equipment	5	5	5
2. Airport traffic control towers for the control of aircraft on and around airports:			
Airport traffic control tower	205	210	229
Combined station/tower	67	66	66
Airport surveillance radar [3]	71	76	80
Precision approach radar	30	31	32
Radar approach control	38	36	35
Long-range radar [4]	1	1	1
3. Flight service stations to relay air traffic control information and provide other flight assistance to pilots, including military flight service: Flight service stations	335	332	332
4. International flight service stations to relay air traffic control information and provide other flight assistance for flights along international routes: International flight service stations	11	13	13

[1] Includes facility at Honolulu which is maintained by military in fiscal years 1963 and 1964. Joint DOD/FAA maintenance responsibility fiscal year 1965.
[2] Includes military facility at Saratoga Springs, N.Y., assumed for maintenance in 1965.
[3] Excludes terminal radar (ASR) service at Raleigh-Durham which is provided from Benson long-range radar.
[4] Provides terminal radar service at Norfolk.

AIR TRAFFIC ACTIVITY

Air traffic activity for centers and towers during fiscal year 1963 continued to increase slightly, although somewhat behind earlier Agency forecasts, while flight service station activity increased at a faster rate. Overall trends in activity are reflected in the table below.

Volume of activity

[In millions]

Facility	Type of activity	Fiscal year				Average percent change		
		1962	1963	1964 [1]	1965 [1]	1962–63	1963–64 [1]	1964–65 [1]
Centers	IFR aircraft handled.	10.1	10.2	10.6	10.8	+1	+4	+2
Towers and combined station/towers.	Aircraft operations	27.4	29.2	30.9	32.5	+7	+6	+5
	Instrument operations.	6.8	7.0	7.3	7.6	+3	+4	+4
Station and combined station/towers.	Flight services	17.8	19.3	20.6	21.7	+8	+7	+5

[1] Forecast.

Mr. EVINS. Control towers have an increase in positions by 127. An increase from $64.7 to $69 million.

Isn't that a little high, Mr. Administrator, when you are supposed to be leveling off?

Mr. HALABY. Well, sir, if the traffic that we have to serve would level off, I would say we would not need additional people, but as we pointed out, it is increasing at a rate of 5 to 10 percent and therefore the operations are coming in and the number of new sites that we need to man has increased. If you look at the bottom of page 33, and if the committee wills, I would urge that that table be put in the record, because that is the basis for the increase, the increased volume of activity. It is simply as the demand for services increases, there is a need for additional people. For example, the 19 new towers that are now around the country use 135 people. These towers you would find listed at page 41 in the presentation.

Mr. EVINS. We will place page 40 in the record at this point.

(The page follows:)

Airport traffic control towers

	1964 appropriation	1965 estimate	Difference
Permanent positions	6,248	6,375	+127
Amount	$64,710,000	$69,512,000	+$4,802,000

The terminal area subactivity has as its basic facility the airport traffic control tower. Other facilities at the terminal areas (although not at all terminal areas) include airport surveillance radar, precision approach radar, approach lighting, instrument landing systems, and various visual aids and radio navigation facilities. The objective of the terminal air traffic control system is to provide for the safe, orderly, and expeditious movement of air traffic in the immediate vicinity of the airport.

The 1965 estimate for this activity requires an increase of 127 positions and $4,802,000 in order to provide $641,000 and 169 positions for new program, $1,604,000 for salary costs required by phase II of the Salary Reform Act of 1962, $1,165,000 for within-grade and grade-to-grade increases effective in 1965, and a net increase of $1,392,000 required chiefly with additional man-years of workload associated with new towers and radars commissioned in 1964, as well as for added costs associated with reallocations, within-grade and grade-to-grade salary increases effective in 1964. These salary increases have been offset in part by savings relating to an improvement in employee productivity and other reasons. Further detail concerning the new program follows:

New programs, 169 positions, $641,000

New terminal control facilities scheduled for operation in fiscal year 1965 will require 169 positions—135 positions for 19 new towers at airports where the volume of traffic meets or is expected to meet the established criteria of 24,000 annual itinerant operations and 34 positions for 4 new airport surveillance radars.

Mr. EVINS. The Administrator wishes to state for the record that there will be 19 new towers at airports needed to handle the volume of traffic in the next year. Look at the table at the bottom of page 33. This is already in the record. This relates to the activity of the entire air traffic control system.

Explain this table please, Mr. Administrator.

Mr. HALABY. This means that the first line, at the bottom of page 33 in the table, it shows that the centers handled IFR aircraft in terms

of 10,100,000 services in 1962 and estimated 10,800,000 services in fiscal year 1965; that the towers and combined service stations and towers handled in 1962, 27 million aircraft operations and in 1965, 32½ million aircraft operations, a 5-percent increase, and the flight service stations which we talked about earlier performed 17,800,000 services in 1962 and 21,700,000 services in 1965.

Mr. EVINS. You are going to open 19 new towers and reduce how many service stations?

Mr. HALABY. Well, we will open 19 new towers with the fiscal year 1965 money. We recently announced the closing of 42 service stations. We believe there are some additional service stations, the number not yet decided upon, which could be consolidated.

Mr. EVINS. You state on page 34 that there is an overall net reduction of 104 positions for operation of the traffic control system.

I do not quite see that when you are asking for 127 more in this particular work; 127 position increases are asked on page 31 and on page 34 you say there is an overall reduction of 104 positions. They do not gibe. Can you reconcile those two figures?

Mr. HALABY. In the area of centers we reduced positions by 5; flight service stations by 37; system supervision and services, 58 decreases; direction, planning and evaluation, 93 decreases; centralized training, 17 less; staff and supporting service, 21 less; and then we add 127 in the control towers because they are needed at new locations. The net decrease is 104.

Mr. EVINS. You are right.

We will place in the record pages 38, 42, 43, 44, 45, 47, and 83, and turn next to the "Facilities installations and technical support."

(The pages follow:)

Air route traffic control centers

	1964 appropriation	1965 estimate	Difference
Permanent positions	6,950	6,945	−5
Amount	$71,787,000	$71,970,000	+$183,000

The en route air traffic control subactivity has as its major elements the air route traffic control centers, long-range radars, and direct controller-pilot voice communications. The objective of the en route air traffic control system is to provide for the safe, orderly and expeditious movement of instrument flight rules (IFR) air traffic, along the airways and in positive control areas.

The 1965 change in requirements for traffic control centers reflects a net increase of $183,000 resulting from added costs associated with pay requirements and new program costs offset by savings due chiefly to center consolidations and to manpower savings through the increased use of computers in centers. Included in the salary increases is $1,774,000 to provide necessary salary adjustments required by phase II of the Salary Reform Act of 1962, and $459,000 for within-grade salary increases effective in 1965. In addition, new programs require an additional 86 positions and $327,000. The new program requirements will be described below.

Offsetting these increases is a net saving of 91 positions and $2,377,000 resulting chiefly from savings due to (1) the consolidation of centers, and (2) the more widespread use of computers with a resultant saving in manpower.

New programs, 86 positions, $327,000

This item provides for the additional personnel needed to man 10 new long-range radar outlets which will be ready for service during fiscal year 1965. The radar locations and the control center to which radar information will be remoted are as follows:

Flight service stations

	1964 appropriation	1965 estimate	Difference
Permanent positions	4,616	4,579	−37
Amount	$42,083,000	$44,617,000	+$2,534,000

The flight service station portion of the enroute air traffic control system consists of an extensive network of landline teletypewriter circuits, point-to-point radio circuits, air-ground radio channels, and related equipment for the exchange of air traffic control information and flight assistance services. In addition to their primary function of air-ground communication to provide flight assistance service, the stations control and monitor the national air navigation system and the point-to-point communication systems essential to the national air traffic control system and the safe and expeditious movement of all air traffic. Additional functions include flight assistance services such as preflight pilot briefing; issuance of information and advice to aircraft during flight; assistance of aircraft in difficulty; initiating search and rescue action; issuance of information to aircraft using airports where airport traffic control service is not provided (airport advisory service); the handling of flight plan and arrival messages; issuance of "Notices to Airmen," and participation in the U.S. Weather Bureau weather observation program.

The increase of $2,534,000 for 1965 provides seven positions and $26,000 for new programs, $1,041,000 for salary costs associated with phase II of the Salary Reform Act of 1962, $769,000 for grade-to-grade and within-grade salary increases effective in 1965, and a net increase of $698,000 related chiefly to (1) additional man-years of workload associated with high-speed teletypewriter centers commissioned in 1964 and (2) added salary costs associated with grade-to-grade and within-grade promotions effective in 1964. The increase of $698,000 reflects a reduction of 44 positions and associated costs through an estimated improvement in employee productivity as well as facility remotings.

New programs, seven positions, $26,000

This item provides additional operations personnel necessary to man a separate domestic station where a combined station/tower facility now exists.

System supervision and services

	1964 appropriation	1965 estimate	Difference
Permanent positions	685	627	−58
Amount	$10,496,000	$10,135,000	−$361,000

Under this heading are included personnel, primarily in the regional headquarters offices, who perform facility supervisory functions of a day-to-day nature, and other personnel who perform operational coordinating functions having national implication. Services performed by these personnel include, but are not specifically limited to (1) matters dealing with utilization of the airspace; (2) the writing of regulations and procedures; (3) arranging for airport and airways obstruction surveys; (4) collecting, validating, and disseminating flight information media; (5) maintaining liaison with military commands; and (6) investigation of accidents involving the military.

The 1965 estimate reflects a reduction of 58 positions and $361,000. This decrease is largely the result of savings forecast as a result of improvement in employee productivity. The decreases of 58 positions and $620,000 under this subactivity have been in part offset by the requirement for an additional $206,000

for salary increases required by phase II of the Salary Reform Act of 1962 and $53,000 for within-grade salary increases effective in 1965. No new program items are requested under this heading.

Direction, planning, and evaluation

	1964 appropriation	1965 estimate	Difference
Permanent positions	331	238	−93
Amount	$3,963,000	$3,429,000	−$534,000

Washington headquarters personnel who are responsible for providing top level planning and direction, defining program objectives, formulating standards, and evaluating the effectiveness of regional operations are included under this heading.

The 1965 request reflects a reduction of 93 positions and $534,000. This saving is largely due to the reduction in Washington staffing. The estimated total savings of $642,000 has been partly offset by an increased requirement of $85,000 for salary costs associated with phase II of the Salary Reform Act of 1962, and $23,000 for within-grade increases. No new program items are requested under this heading.

Centralized training program

	1964 appropriation	1965 estimate	Difference
Permanent positions	203	186	−17
Amount	$3,219,000	$3,154,000	−$65,000

The FAA mission requires that the Agency hire a work force of highly skilled, specially trained technicians for its predominantly technical work programs. Generally personnel possessing skills for and familiarity with Agency programs and equipment are not available outside the Agency. Formalized training courses, which span virtually all fields of the aviation industry in which the Agency is involved, are conducted largely on a centralized basis at the FAA Academy located at Oklahoma City, Okla., but training facilities are provided also at certain other geographic locations where there are significant concentrations of employees. In support of its technical work programs the Agency also conducts a management and general training program, and a program for development and improvement of instructional methods, procedures, and techniques. In summary, the major items of cost which are consolidated in the centralized training program include the following: cost of instructor staff and related services, facilities, supplies, and equipment; student travel costs; out-of-agency training costs; and cost of planning, supervision, and direction of training programs.

That portion of the centralized training program which has been established for the training of employees in air traffic control specialties is financed directly under this heading. Included also is a proportionate share of the cost of conducting management/general training and training developmental activities, and the indirect costs related to planning, supervision, and direction of training programs.

The portion of the centralized training program included in the operation of air traffic control activity provides for a net reduction of 17 positions and $65,000 from the 1964 level. This decrease is the net savings after program decreases totaling $184,000 have been offset by an increase of $66,000 for new program costs, $41,000 for salary costs associated with phase II of the Salary Reform Act of 1962, and $12,000 for within-grade and grade-to-grade promotions anticipated in 1965. The requirements for the new program increase are described below.

New program, $66,000

Employee turnover and new programs in 1965 will generate a requirement for training a higher number of employees at the FAA Academy in ATC terminal operations and in facility administration. With partially offsetting reductions in other course enrollments, there remains a requirement for $66,000 in additional travel funds to provide training at the required level.

Staff and supporting services

	1964 appropriation	1965 estimate	Difference
Permanent positions	1,036	1,015	−21
Amount	$13,532,000	$14,237,000	+$705,000

This program reflects the proration to this activity of the consolidated costs and staffing of those functions dealing with the direction and control of programs and policies; coordination of international civil aviation programs; legal services management improvement; budgeting; financial reporting; accounting for funds; payrolling of employees; personnel activities; security; and other services of a general housekeeping nature, including mail distribution, printing, and duplicating. In addition this item provides for headquarters space costs, administrative supplies, communications, and telephone expenses at regional and Washington headquarters operations.

The programs categorized under this activity are wholly financed under the operations appropriation. The basic services performed by the various program units extend to all agency operations including those programs funded under operations as well as the appropriations for facilities and equipment, grants-in-aid for airports, research and development.

Workload formulas are used for determining staffing needs in a number of operations, such as payrolling, accounting, and auditing. In those areas where the work performed is primarily of a nonrepetitive nature the determination of manpower requirements is based on workload trends, past performance, as well as foreseeable new requirements. In the past these factors have been used to maintain a reasonable balance in the growth of staff and supporting activities.

The 1965 increase for this function will provide $189,000 for required pay increases associated with phase II of the Salary Reform Act of 1962, and $58,000 for additional within-grade costs. Also included are 18 positions and $594,000 for the pro rata share of the new program costs financed under this heading. The above costs have been in part offset by a reduction of $136,000 and 39 positions resulting largely from improvement in employee productivity.

JUSTIFICATION BY OBJECT

Summary

	1964 appropriation	1965 estimate	Difference
Permanent positions	20,069	19,965	−104
Personnel compensation and benefits:			
Personnel compensation	$185,307,300	$192,107,800	$6,800,500
Personnel benefits	13,267,400	13,871,300	603,900
Total, personnel compensation and benefits	198,574,700	205,979,100	7,404,400
Other objects:			
Travel and transportation of persons	3,708,700	3,634,200	−74,500
Transportation of things	1,015,000	981,000	−34,000
Rent, communications, and utilities	2,722,900	2,939,100	216,200
Printing and reproduction	374,700	373,500	−1,200
Other services	963,100	850,400	−112,700
Services of other agencies	1,638,400	1,533,700	−104,700
Supplies and materials	627,000	628,400	1,400
Equipment	535,900	505,000	−30,900
Total, other objects	11,585,700	11,445,300	−140,400
Deduct quarters and subsistence charges	−370,400	−370,400	
Total, all objects	209,790,000	217,054,000	7,264,000

Facility Installation and Technical Support

Mr. Evins. We will place the chart on page 98 in the record and the justification on pages 99 through 101. This is facility installation and technical support still under the Operations appropriation.

(The pages follow:)

Facility Installation and Technical Support

Requirements

	1964 appropriation		1965 estimate		Difference	
	Positions	Amount	Positions	Amount	Positions	Amount
Engineering	711	$8,228,000	613	$7,525,000	−98	−$703,000
Materiel and procurement	1,985	34,148,000	1,862	35,705,000	−123	+1,557,000
Leased commercial services	.....	20,940,000	.....	23,272,000	.....	+2,332,000
Planning, direction, and evaluation	185	2,058,000	181	2,128,000	−4	+70,000
Centralized training program	62	1,101,000	62	775,000	.....	−326,000
Staff and supporting services	345	4,506,000	338	4,742,000	−7	+236,000
Total	3,288	70,981,000	3,056	74,147,000	−232	+3,166,000

Facility Installation and Technical Support

General Justification

The major objectives of this activity are to provide for (1) direction of engineering services related to the acquisition, installation and modification of air traffic control and air navigation facilities and equipment, and (2) the Agency's procurement, contracting, and materiel management programs. This activity also includes the supply support and leased commercial services for the traffic control system and supply support for Agency aircraft except for aircraft related to the research and development program.

The FAA and the Department of Defense have cooperated in an effort to reduce the cost of communications services. Estimated Agency savings of $6.3 million have been reflected in leased line costs due to telpak arrangements.

The estimate of $74,147,000 for the fiscal year 1965 provides for services necessary to the support of operating air navigation and air traffic control facilities and equipment, and additional resources for leased commercial services and the procurement of supplies and materials for the facilities being added to the traffic control system and the operation of new aircraft. This estimate contemplates savings resulting from increased productivity and manpower utilization and reductions resulting from discontinuance of nonessential facilities and services.

The fiscal year 1965 funding requirements to provide for continuation of the facility installation and technical support program are summarized below:

	1964	1965	Difference
Positions	3,288	3,056	−232
Amount	$70,981,000	$74,147,000	+$3,166,000

The 1965 staffing for the program will be reduced by 232 positions, including 7 positions in staff and support. However, a net funding increase of $3,166,000 will be required. This increase is largely for new programs required to support the air traffic control and navigation program. However, additional funds are also required for pay increases and within-grade and grade-to-grade salary increases. These added requirements have been in part offset by a substantial decrease due to such items as the reduction in Washington staffing and the non-

recurring installation costs of leased communications services. Changes in the 1965 program are summarized in the following table and discussed in detail in the following pages.

	Positions	Amount
Direct costs:		
New programs		$3,799,000
Phase II pay increases		493,000
Other pay adjustments		237,000
Other cost adjustments	−225	−1,599,000
Staff and supporting services	−7	236,000
Total	−232	3,166,000

New programs, +$3,799,000

The 1965 request includes an additional $3,799,000, which is chiefly required for funding of leased commercial services and for supply support related to new air traffic control and navigation aids. The request includes $2,143,000 for leased services and $1,171,000 for supply support. Details concerning the new program requirements may be found in the subsequent justification under this activity.

Phase II pay increase, +$493,000

This category of cost represents the amount required to meet the cost of that portion of the pay increases authorized by Public Law 87–793 and becoming effective in January 1964. The estimate is based on employment in general schedule grades as of January 1, 1964, and was computed on a grade-by-grade basis to give proper weight to the different amount of increase for each grade level. The amount included in this estimate represents the difference between the total yearly value of the increase and the amount which was payable in 1964. On the average, this estimate is 51.5 percent of the total yearly costs.

Other pay adjustments, +$237,000

During the fiscal year 1965, $237,000 will be required to finance within grade salary increases and additional salary costs of personnel who will be qualified for and promoted to higher grade levels than positions occupied during 1964. The cost of within-grade salary increases will amount to $176,000 after adjusting for savings in within-grade costs due to turnover. This estimate is based on present grade levels of employees in this activity and the length of time they have been in present grade levels. In addition, it is anticipated that upgrading of employees who will be qualified for promotion will amount to $61,000 in 1965.

Other cost adjustments, —$1,599,000

Reflected in this category are estimated savings of $3,100,000. These savings result from items such as: (1) projected improvements in employee productivity; (2) a reduction in Washington staffing; (3) transfer of funding responsibility for training of installation personnel from the operations to the facilities and equipment appropriation; (4) nonrecuring costs associated with installation of leased communications services; (5) closing of an Agency supply office in Seattle; and (6) other decreases such as a reduction in overtime, one less workday, etc. These savings have been in part offset by increased costs amounting to $1,501,000. This increase will be required to fund the program in operation at the end of June 1964.

Staff and supporting services, +$236,000

Staff and supporting service costs allocated to this activity in 1965 will increase by $236,000 because of increases arising primarily from additional rents and communications costs, pay increases and other salary increases. These additional costs exceed savings resulting from employment reductions in the staff and support activities which permit a reduction of seven in the number of positions allocated to the activities.

Mr. EVINS. For engineering you are asking for 98 less positions; planning direction and evaluation, 4 less positions and staff and supporting services in this Department, 7 less; or a reduction of 232, in-

cluding 123 in material and procurement. With this large reduction still the funding requirement goes up from $70,981,000 to $74,147,000.

Mr. Administrator, how many positions would you have to reduce in that facility installations to keep your budget at the $70 million level as of last year?

Mr. HALABY. Approximately 300 additional personnel, sir. That would be a 10 percent cut. We have already achieved about an 8 percent reduction, or 7 percent.

Mr. EVINS. On your justification on page 99 you speak about the reductions and say, "The new funding increase of $3,166,000 will be required for new programs." You do not state that it is required because of salary increases and pay raise increases, but you say for new programs. What are the new programs?

Mr. HALABY. That amount breaks down, sir, on page 100 into $3,799,000 for new programs, $493,000 for phase II pay increase, $237,000 for other pay adjustments, a reduction of $1,599,000 for other pay adjustments and a $236,000 increase for staff and supporting service.

Mr. EVINS. What are the new programs?

Mr. HALABY. The new programs are supply requirements for new traffic control and air navigation facilities, $1,171,000, contractual services and supplies for operation and maintenance of new aircraft, $243,000, parts and supplies for overhaul and repair programs, $242,000. Then, in the category of leased commercial interphone, teletypewriter, radar remoting and control circuits we have the amount of $2,143,000, and that totals for new programs, $3,799,000.

Mr. EVINS. Who is in charge of this Division, the Division of Facility Installations?

Mr. HALABY. This is Mr. Richard Leng, who is not as familiar to you as some of our associates. He comes to us from the presidency of his own firm and formerly with Sylvania and Packard, Bell Corp. I guess he is one of those rare and wonderful individuals who is willing to come to the Government after success, both financial and professional in his field, simply because he thinks he ought to do his duty to his country. He has done a marvelous job in pulling together this organization, getting the loyalty of the career men, working on better buying, better control of our facilities. He has a kind of chart, showing how industry and good organization is going to revolutionize our work. I think he has just begun to do the things that this committee would want a man in that job to do.

Mr. EVINS. Mr. Leng is a fine man and we are pleased that he is serving the Government.

Mr. LENG. I just hope I can answer your questions as well, Mr. Chairman.

Mr. EVINS. My question was, with Sylvania and the telephone company, could you reduce your personnel by 233 and at the same time raise your budget by $5 million? How do you do that? Did you operate that way in private industry?

Mr. LENG. Yes, sir. As the facilities expanded and we have added this year something in the neighborhood, in fiscal year 1965, of 179 new VORTAC's scattered throughout the country and each takes additional supplies and spare parts, and 15 additional radars, and whereas we are making reductions in our regular items, as we add these addi-

tional facilities, sir, we have to provide the supply support for them.

Mr. EVINS. Are there any questions?

Mr. JONAS. What does one of these VORTAC systems cost?

Mr. LENG. It is broken up into two types of cost, VOR and the TACAN.

NEW PROGRAMS

Mr. JONAS. I want to have a little more information about these new programs. You have them lumped together for $3,799,000. That does not give us much information without a breakdown. Can you spell that out in more detail? Tell us what makes up that $3,799,000?

Mr. LENG. On page 105 we have a breakdown of the communication part of that and $1 million or a good deal more than half of it is tied in with these additional radar remotings.

Mr. DEAN. Mr. Chairman, by looking at page 21 of the small summary book, you can quickly see every one of the new cost items adding up to the $3,166,000. Those figures appear, beginning on page 100, and indicate that supply requirements, radar remoting, and peripheral communications, none of which are personal services items, but reflect the larger number of facilities in the system, are the producers of the increased cost. This cost is only $3,166,000 in excess of the previous year. In terms of manpower, the "Installation and materiel" organization is very sharply reduced.

Mr. JONAS. I think that table on page 21 would help the record. It is all on one page.

Mr. EVINS. Mr. Reporter, we will place page 21 of the justification summary at this point in the record.

(The page follows:)

Facility installation and technical support

	Changes from 1964	
	Positions	Amount
NEW PROGRAM		
Material and procurement:		
Supply requirements for new traffic control and air navigation facilities		$1,171,000
Contractual services and supplies for operation and maintenance of new aircraft		243,000
Parts and supplies for overhaul and repair programs		242,000
Total material and procurement		1,656,000
Leased commercial services:		
Interphone circuits		725,200
Telewriter circuits		87,600
Center peripheral communications circuits		49,300
Radac remoting systems		1,092,200
Air navigation facility control circuits		188,700
Total leased commercial services		2,143,000
Total new program		3,799,000
Phase II pay adjustment		493,000
Other pay adjustments		237,000
Other cost adjustments		−1,599,000
Staff and supporting services	−225	236,000
	−7	
Total change	−232	3,166,000

LEASED COMMERCIAL SERVICES

Mr. EVINS. Insert page 105 on leased commercial services.
(The page follows:)

Leased commercial services

	1964 appropriation	1965 estimate	Difference
Amount	$20,940,000	$23,272,000	+$2,332,000

Included under this subactivity is the funding for the leasing of (1) full-time long-distance telephone lines (interphone) used to transmit messages pertaining to the flow and control of air traffic operating under instrument flight rule weather conditions; (2) lines for the collection and distribution by teletypewriter of weather data and reports, notices to airmen concerning field conditions, inoperative air navigation aids, etc., flight progress reports and aircraft arrival reports; (3) lines (peripheral communications circuits) to connect the air route traffic control centers with remote air/ground transmitters and receivers to provide controllers with direct radio comunications to aircraft under their control; (4) lines from control points to adjacent air navigation facilities; (5) radar remoting systems for the transmission of intelligence and voice communications from radar sites to air route traffic control centers; and (6) automatic data processing equipment for air route traffic control centers.

The 1965 request for this subactivity reflects an increase of $2,332,000 of which $2,143,000 is associated with new programs and is described below. The additional $189,000 is the net result of a savings of $402,000 for nonrecurring installation costs offset by an increase of $591,000 for additional months lease charges for communications services initiated in 1964.

New program, $2,143,000

There follows a breakdown of increases for leased services by type of service:

Interphone circuits	$725,200
Teletypewriter circuits	87,600
Center peripheral communications circuits	49,300
Radar remoting systems	1,092,200
Air navigation facility control circuits	188,700
Total	2,143,000

Mr. EVINS. This page shows some of the breakdown of the new program—intertelephone circuits, teletypewriter circuits, center peripheral communications circuits.

Mr. JONAS. Are these recurring items?

Mr. LENG. This is first-year costs.

Mr. JONAS. This will be a recurring cost.

Mr. LENG. That is right.

This will be a communications cost for the additional radars that are being installed, for example.

Mr. EVINS. Mr. Leng, can this work be tightened up? Your personnel has been reduced but your costs go up substantially.

Mr. LENG. We are making every effort, negotiating with the various companies that are supplying this service to us to reduce it and we think that next year we can show you some nice savings on this.

Mr. EVINS. Are these interphone circuits in the service stations that you will tie into?

Mr. LENG. No, sir. Most of this is the centers and the towers to which reference was made before.

Mr. ALEXANDER. On page 106 it shows the breakdown of locations and further breakdown of the operational requirements.

Mr. OSTERTAG. What is the cause of the increased mileage per center?

Mr. LENG. This is just total increase in mileage for the additional subsections that are being brought into the centers. As we tie in additional radars and get this coverage reduced, it requires additional communication mileage.

Mr. EVINS. You mentioned besides the salary increase for supporting services, page 113 that there is $198,000 for prorated share of the new program costs. You do not tell us what this is.

Mr. DEAN. In our budget you will find that under each major activity, flight standards, aircraft engineering, et cetera, there is a prorated share of the total staff and support costs.

Mr. EVINS. Where in that summary page?

Mr. DEAN. You will get to that on page 494, volume I. Then we can cover all of the staff and support for the record.

Mr. EVINS. We haven't come to that yet.

Mr. Reporter, place in the record pages 102, 103, 111, 112, and 113 which is the justification for each of the subheadings under "Facility Installation and Technical Support" section.

(The pages follow:)

Engineering

	1964 appropriation	1965 estimate	Difference
Permanent positions	711	613	−98
Amount	$8,228,000	$7,525,000	−$703,000

This subactivity provides for engineering and management of programs for the construction, installation, improvement, dismantling and relocation of facilities comprising the air traffic control and air navigation system.

The decrease of $703,000 in the 1965 requirement for this subactivity is the net result of an estimated reduction of $892,000 and 98 positions offset by an increase of $134,000 for salary costs associated with implementation of phase II of the Salary Reform Act of 1962, and an increase of $55,000 for within-grade salary increases. The decrease of $892,000 results from savings due to a reduction in Washington staffing, an estimated improvement in employee productivity and a transfer of funding responsibility for training of installation personnel from the "Operations" to the "Facilities and Equipment" appropriation. These decreases which total over $1,100,000 are offset in part by added costs required to support the 1964 employment level. No new programs are included under this subactivity.

Materiel and procurement

	1964 appropriation	1965 estimate	Difference
Permanent positions	1,985	1,862	−123
Amount	$34,148,000	$35,705,000	+$1,557,000

This subactivity provides for the accomplishment of procurement, warehousing, distribution, transportation, and materiel management functions necessary to furnish and control equipments, supplies, spare parts, and facility components required for the establishment, maintenance, and operation of air navigation

and air traffic control facilities, supply support for Agency aircraft (other than aircraft utilized for research and development), and for the supply support of all other Agency programs. It provides shop operations at the Installation and Materiel Depot, Oklahoma City, for the repair and overhaul of navigational aids, air traffic control and communications equipments and components. It includes acquisition of the Agency requirements for real property, building space, services and public utilities, and management of the Agency's materiel assets.

The 1965 estimate reflects a decrease of 123 positions and a net increase of $1,557,000. The increase reflects a new program requirement of $1,656,000, as well as $310,000 for salary costs arising from implementation of phase II of the Salary Reform Act of 1962, and $167,000 for within-grade and grade-to-grade salary increases. These increases have been in part offset by a net savings of 123 positions and $576,000 due in large measure to improvement in employee productivity, reductions in Washington staffing and discontinuance of Agency facilities. The new program requirement mentioned above is described below in detail.

New program, +$1,656,000

This item includes $1,171,000 to provide materiel and supply requirements for new traffic control and air navigation facilities scheduled for operation in 1965. The major facilities included are 15 long-range radars and associated link repeaters, terminals, beacons, and bright display equipment; 25 center air/ground peripheral communications outlets; 20 airport traffic control towers; 6 terminal area radars; 18 ATC radar beacons; 103 Doppler direction finder equipments; 29 limited remote communications outlets; 54 VHF omnidirectional radio ranges; 189 Tacan equipments; 8 instrument landing systems; 19 standard approach light systems with sequence flashing; 32 runway end; 12 visual approach slope indicators; 3 short approach lights; 5 fan markers; and 7 radio homing beacons. The locations of these facilities are included in the tables under the activity "Maintenance of Traffic Control System," pages 146 to 159.

An increase of $243,000 is requested for contractual services and supplies required for the operation and maintenance of eight new aircraft.

Funds in the amount of $242,000 are required to provide components and other supply support for the overhaul and repair of Doppler direction finder equipment, modification of repair shops, and the procurement of equipment and other operating items required for materiel warehousing, distributing, and supply functions.

Planning direction and evaluation

	1964 appropriation	1965 estimate	Difference
Permanent positions	185	181	−4
Amount	$2,058,000	$2,128,000	+$70,00

Funded under this subactivity are Washington and regional headquarters personnel responsible for providing top-level planning and direction, defining program objectives, formulating standards, and evaluating the effectiveness of total operations.

The 1965 program reflects an increase of $70,000 which will provide $35,000 for salary costs arising from implementation of phase II of the Salary Reform Act of 1962, $12,000 for additional within-grade salary increases and $23,000 largely due to the funding of additional man-years of effort in 1965. No new programs are included under this subactivity.

Centralized training program

	1964 appropriation	1965 estimate	Difference
Permanent positions	62	62	
Amount	$1,101,000	$775,000	−$326,000

The FAA mission requires that the Agency hire a work force of highly skilled, specially trained technicians for its predominantly technical work programs. Generally, personnel possessing skills for and familiarity with, Agency programs and equipment are not available outside the Agency. Formalized training courses, which span virtually all fields of the aviation industry in which the Agency is involved, are conducted largely on a centralized basis at the FAA Academy located at Oklahoma City, Okla., but training facilities are provided also at certain other geographical locations were there are significant concentrations of employees. In support of its technical work programs the Agency also conducts a management and general training program, and a program for development and improvement of instructional methods, procedures, and techniques. In summary, the major items of cost which are consolidated in the centralized training program include the following: Cost of instructor staff and related services, facilities, supplies, and equipment; Student travel costs; Out-of-Agency training costs; and Cost of planning, supervision, and direction of training programs.

That portion of the centralized training program which has been established for the training of installation and technical support specialists who are responsible for the installation of the numerous facilities and equipments which make up the national network of air traffic control system and navigation aids, is financed directly under this heading. Included also is a proportionate share of the cost of conducting management general training and training developmental activities, and the indirect costs related to planning, supervision, and direction of training programs.

The training program for this activity provides a reduction of $326,000 for 1965. The saving is chiefly related to a reduction in training travel costs for facility installation specialists. These costs are now budgeted in the facilities and equipment appropriation. This saving has been in part offset by $14,000 of added salary costs associated with the implementation of phase II of the Salary Reform Act of 1962, and $3,000 for within-grade and grade-to-grade promotions to become effective in 1965. No new program is proposed for 1965.

Staff and supporting services

	1964 appropriation	1965 estimate	Difference
Permanent positions	345	338	−7
Amount	$4,506,000	$4,742,000	$236,000

This program reflects the proration to this activity of the consolidated costs and staffing of those functions dealing with the direction and control of programs and policies; coordination of international civil aviation programs; legal services management improvement; budgeting; financial reporting; accounting for funds; payrolling of employees; personnel activities; security; and other services of a general housekeeping nature, including mail distribution, printing and duplicating. In addition this item provides for headquarters space costs, administrative supplies, communications and telephone expenses at regional and Washington headquarters operations.

The programs categorized under this activity are wholly financed under the "Operations" appropriation. The basic services performed by the various program units extend to all Agency operations including these programs funded under "Operations" as well as the appropriations for "Facilities and equipment," "Grants-in-aid for airports," "Research and development."

Workload formulas are used for determining staffing needs in a number of operations, such as payrolling, accounting, and auditing. In those areas where the work performed is primarily of a nonrepetitive nature the determination of manpower requirements is based on workload trends, past performance, as well as foreseeable new requirements. In the past these factors have been used to maintain a reasonable balance in the growth of staff and supporting activities.

The change in this activity between fiscal years 1964 and 1965 for staff and supporting services is a reduction of seven positions and a dollar increase amounting to $236,000. The 1965 increase for this function will provide $62,000 for required pay increases associated with implementation of phase II of the

Salary Reform Act of 1962, and $20,000 for additional within-grade costs. Also included are six positions and $198,000 for the pro rata share of the new program costs financed under this heading. The above costs have been in part offset by a reduction of $44,000 and 13 positions resulting largely from improvement in employee productivity.

BREAKDOWN OF EXPENSES, FACILITY INSTALLATION AND TECHNICAL SUPPORT

Mr. EVINS. Let's turn to other objects under this section.
Mr. Reporter, insert pages 118 and 119.
(The pages follow:)

Facility installation and technical support—Justification by object

SUMMARY

	1964 appropriation	1965 estimate	Difference
Permanent positions	3,288	3,056	−232
Personal services and benefits:			
Personnel compensation	$25,466,100	$25,108,700	−$357,400
Personnel benefits	1,913,400	1,901,500	−11,900
Total, personal services and benefits	27,379,500	27,010,200	−369,300
Other objects:			
Travel and transportation of persons	1,462,100	1,191,000	−271,100
Transportation of things	843,800	852,700	8,900
Rent, communications, and utilities	3,307,800	3,070,700	−237,100
Printing and reproduction	170,900	170,900	
Other services	2,163,900	2,295,800	131,900
Services of other agencies	84,700	76,100	−8,600
Supplies and materials	16,158,500	17,214,500	1,056,000
Equipment	584,200	721,000	136,800
Total, other objects	24,775,900	25,592,700	816,800
Deduct quarters and subsistence charges	−62,400	−64,900	−2,500
Total, all objects, FAA	52,093,000	52,538,000	445,000

ALLOCATION TO DEPARTMENT OF DEFENSE

Permanent positions	41		−41
Personal services and benefits:			
Personnel compensation	$241,850		−$241,850
Personnel benefits	17,016		−17,016
Total, personal services and benefits	258,866		−258,866
Other objects:			
Rent, communications, and utilities	18,600,000	$21,609,000	3,009,000
Supplies and materials	29,134		−29,134
Total, other subjects	18,629,134	21,609,000	2,979,866
Total allocation to DOD	18,888,000	21,609,000	2,721,000
Total obligations	70,981,000	74,147,000	3,166,000

Mr. EVINS. Transportation of things is up by about $9,000; printing and reproduction remains the same, $170,900, other services increase from $2.1 million to $2.2 million. That is $131,900.

Did you go over every one of these item justifications from all of your stations or did you adopt just what your fieldmen sent in and requested?

Mr. LENG. No, sir; in collaboration with Mr. King, we have both gone over each of these items in detail.

Mr. EVINS. Do you make the judgment on whether these needs actually exist or do you follow their recommendations?

Mr. LENG. I think I can honestly say that it is a case of reviewing their recommendations and using whatever business judgment and spot checks that one would ordinarily make, but I will take responsibility for the figures that are here.

Mr. EVINS. Regarding "Supplies and materials," this goes up from $16.1 million to $17,214,500, a million dollar increase there. This is page 131. You indicate that this is for additional traffic and air navigation facilities to be commissioned in 1965, offset by some reductions as a result of supply items available from existing warehouse stock.

Mr. LENG. We have additional facilities, as I have said, mainly these additional radars and additional VORTAC's which require the facilities stocks and stores entries.

Mr. OSTERTAG. Will the chairman yield?

Mr. EVINS. Mr. Ostertag.

DECREASE IN NUMBER OF SECURITY INVESTIGATIONS

Mr. OSTERTAG. Returning just for a moment to page 130, which deals with services of other agencies. I notice that there is a $7,000 reduction under "Security investigations."

How is that determined, by Civil Service? That is a reimbursement to the Civil Service Commission, is it not?

Mr. DEAN. That is correct, Mr. Ostertag, and we will have fewer such investigations during 1965.

Mr. OSTERTAG. In other words, it is based on fewer investigations, caused perhaps by reduction in personnel.

Mr. DEAN. Reduction in total number of additional people who will require full field investigation.

Mr. OSTERTAG. I notice you have an $8,600 reduction.

That is all.

Mr. EVINS. We will place in the record pages 131, 132, and 133.

(The pages follow:)

Supplies and materials

	1964 appropriation	1965 estimate	Difference
Facility stock and stores	$13,687,200	$13,902,500	$215,300
Aircraft stock and stores	1,800,300	2,606,000	805,700
Operating and working supplies	306,300	370,300	64,000
Maintenance and operation vehicles and off-road automotive equipment	13,700	13,700	
Supplies for messhall operation	88,800	77,400	−11,400
Supplies for training program	15,900	14,700	−1,200
Office and miscellaneous supplies	94,700	76,600	−18,100
Staff and supporting service	151,600	153,300	1,700
Total FAA	16,158,500	17,214,500	1,056,000
Allocation to Department of Defense	29,134		−29,134
Total	16,187,634	17,214,500	1,026,866

EXPLANATION

The maintenance and operation of traffic control and air navigation facilities require items of expendable stock such as electronic tubes, engine generator parts, teletypewriter parts and paper, transformers, resistors, training and administrative supplies (facility stocks and stores). Supplies and parts are required for the maintenance of aircraft and airborne electronic equipment (aircraft stocks and stores). Included are supplies necessary to the operation of warehouse and repair shops. The Government provides facilities including messhall operation for bachelor employees at certain remote locations where public facilities are not available.

The increase of $215,300 under facility stocks and stores consists of $1,171,200 for supply items required for the additional traffic control and air navigation facilities to be commissioned in 1965; offset by reductions of $228,000 due to the planned discontinuance of facilities, $200,000 resulting from the closing of supply operations at Seattle, and a decrease of $527,900 as a result of supply items available from existing warehouse stock.

An increase of $805,700 is required under "Aircraft stock and stores" for procurement of supplies and parts utilized in the overhaul and modification of aircraft and avionics equipment relating to the additional flight hours and increase in the aircraft fleet. An increase of $64,000 is required to provide for shop operations.

The reduction in funds allocated to the Department of Defense represents cost to the FAA during 1964 for supply items utilized in the administration of the integrated leased communications procurement program which will be financed by the DOD in 1965.

Equipment

	1964 appropriation	1965 estimate	Difference
Off-road automotive equipment	$23,000	$55,800	$32,800
Working equipment	174,400	241,800	67,400
Office equipment	184,200	126,000	−58,200
Test equipment	36,800	111,200	74,400
Household equipment	37,300	57,100	19,800
Training equipment	24,800	19,100	−5,700
Staff and supporting services	103,700	110,000	6,300
Total	584,200	721,000	136,800

EXPLANATION

Requirements in this classification include funds for replacement of equipment for air traffic control field facilities; new and replacement tools, working, and test equipment required in the repair shops and warehouse operation; aircraft and airbone electronic equipment including ground handling equipment; and technical equipment for the conduct of training programs.

The increase of $136,800 provides for procurement of new and replacement items of test and working equipment including the warehouse guide-o-matic tractor system, analyzers, tuning units, and generators and replacement of forklift automotive equipment utilized in materiel and shop operations; and replacement of household equipment at Government-owned quarters at isolated locations in Alaska and the Pacific Islands.

Systems Maintenance

Mr. Evins. If there are no further questions, we will turn to "Systems maintenance." Let's take a look at the chart on page 136. This is one of your big divisions, for which you are asking an increase of 162 new positions.

In 1964 you had 11,449 and for 1965 you are requesting 11,611 positions, or an increased budget from $139,522,000 to $148,673,000, an increase of $9,151,000.

Mr. Ostertag. And 162 positions.

Mr. EVINS. And 162 positions. This is broken down according to the chart by activities. You have an increase in field maintenance of 245 positions and then you reduce your other activities so that you have a net increase of 162.

Is your equipment becoming obsolete? Is it new work or new facilities?

Mr. HALABY. About 560 or more new facilities are involved and they are of the most modern, frequently more complicated nature. That is what requires the additional personnel.

Mr. EVINS. We will place the chart on page 136 and the statement on page 137 in the record.

(The pages follow:)

MAINTENANCE OF TRAFFIC CONTROL SYSTEM

Requirements

	1964 appropriation		1965 estimate		Difference	
	Positions	Amount	Positions	Amount	Positions	Amount
Field maintenance	9,507	$113,326,000	9,752	$122,103,000	245	$8,777,000
System supervision and services	384	4,144,000	348	3,918,000	−36	−226,000
Planning, direction, and evaluation	157	1,620,000	140	1,745,000	−17	125,000
Centralized training program	450	8,016,000	440	7,843,000	−10	−173,000
Staff and supporting services	951	12,416,000	931	13,064,000	−20	648,000
Total	11,449	139,522,000	11,611	148,673,000	162	9,151,000

GENERAL CLASSIFICATION

The major objective of this activity is to assure effective, economical maintenance and reliable operation of installed air navigation, air traffic control, and aeronautical communication facilities and auxiliary equipment in the traffic control system; and that maintenance of the system is responsive to operational needs, the requirements of aviation safety, and national defense.

The principal facilities included in the traffic control system are—

(1) Air route traffic control centers and long-range radar for control of air traffic over extensive geographical areas and for the provision of security control of air traffic;

(2) Airport traffic control towers and terminal area radar for control of traffic on and around airports;

(3) Flight service stations to relay air traffic control information and provide other flight assistance to pilots;

(4) International flight service stations to relay air traffic control information and provide other flight assistance for flights along international routes;

(5) Air navigation facilities (VORTAC), a short-range navigation system which defines the location of principal airways and furnishes pilots distance and direction from ground stations;

(6) Instrument landing systems to provide pilots with direction, distance, and glide slope information necessary for making an approach to a runway under conditions of poor visibility;

(7) Lighting systems composed of a row of lights extending outward from a runway to aid pilots during landing, as well as visual signaling devices which aid the pilot in alining with the runway and following a predetermined glide slope during this final approach;

(8) Air navigation facilities (L/MF ranges and markers) to provide pilots with direction information and define the location of low/medium frequency airways; and

(9) Intermediate fields and beacons, fields for emergency landing on certain routes where adequate facilities cannot be furnished by local governing bodies, and beacons (lights) for visual guidance along airways over rough terrain.

Mr. EVINS. It is stated on page 141, new positions, 162 are required. Without telling us more in detail, this is a general statement and we can take it on face value.

Mr. HALABY. We would refer the chairman to the list of new facilities on 146, 147, and 148. I guess also we would make the point that but for an increase of about 4 to 5 percent in the output per man per year we would have to ask for a substantial additional number of people to handle these over 500 new facilities. The productivity index at the bottom of page 141 shows fiscal year 1963 at 100 percent, fiscal year 1964 at 106 percent, a 6 percent improvement in productivity, and fiscal year 1965 another 4 percent improvement in productivity. We are very proud of that and we will have the new and more complicated, and we hope more useful facilities coming into our system in fiscal year 1965.

Mr. JONAS. Will the chairman yield?

Mr. EVINS. Yes.

NATURE OF INCREASED PRODUCTIVITY

Mr. JONAS. I wish you would spell out that increase in productivity a little bit. How do you rate these people? How do you go about it?

Mr. HALABY. This is in the maintenance area. I am going to ask Mr. Vierling, who, again, is a newcomer to this committee and to FAA. He has the responsibility of seeing that this systems maintenance program works. He had his own firm. He was formerly a vice president of Capital Airlines, where he was in charge of engineering and maintenance. He, too, has been bringing to us some of the experience in the business and industrial field.

First, he has been very insistent that we have a cost accounting. Go ahead, Mr. Vierling.

Mr. VIERLING. To begin with, Mr. Jonas, we had to break down maintenance costs associated with all of the facilities that we have. In order to be able to use good judgment in the staffing and the maintenance of these facilities, several years ago we developed what was known as a personal services workload formula. This workload formula, as you can see, is rather substantial. It breaks down the actual costs to maintain the various standard types of facilities including the actual amount of workload and travel time required to properly maintain these facilities.

These workload formulas still apply.

Based on these we have developed what is called a standard facility year, in ascertaining the total output that we must meet each year in maintaining the present system, plus the added facilities and added systems which are included each year.

We then determined the number of inputs that we make in man-years of input to maintain these facilities and then determined from that the ratio of the output to the input to determine the productivity which has been achieved by us in maintaining these facilities.

As we go along maintaining these various equipments we make improvements to them. We also determine, as Mr. Moore described yesterday, that the airlines do in maintaining aircraft, that we can improve the procedures that we use. We can change, sometimes, the

period, or the frequency with which we perform certain maintenance operations. In doing this we are able to stretch out our manpower. We are able to increase the utilization of our manpower and thus come up with this productivity index.

Mr. JONAS. All of that means that you have managed to have your people turn out a little more work than they previously turned out, is that right?

Mr. VIERLING. We have had a substantial program of training our personnel, not only training them to do a better job with current equipment, but as we have gone along with more sophisticated equipment we have had a continuing training program of upgrading those people to be able to do these more sophisticated jobs.

Mr. HALABY. To translate positions into dollars that increase in productivity of 4 percent between 1964 and 1965 equals just a little less than 400 positions and about $3,200,000.

If you go back to fiscal year 1960 and compare with 1965, the productivity increases amount to about 1,500 jobs and $13 million.

Mr. JONAS. Doesn't that mean that as men obtain experience, with close supervision they naturally will be able to turn out more work?

Mr. HALABY. Yes, sir; exactly, and add training to that and that is the answer.

Mr. EVINS. It makes good sense, with all your equipment and facilities to maintain it. You do not want it to deteriorate out in the remote spots throughout the world.

ASSUMPTION OF MILITARY FACILITIES

I notice that you claim to be taking over some maintenance responsibility for the military radar facilities involving control of civilian traffic. Where is this and how extensive is it? Did they assign it to you?

Mr. HALABY. Yes, sir: 12 new locations from the military; for example, Bucks Harbor, Maine, Fallon, Nev., Amarillo, Tex., and the others marked with footnote 1 on page 146. We have taken these over and they are part of the money that we referred to in the table this morning where, with 686 people and $7,464,000, since 1959 we have done this. I am happy to report that I think not only were they agreeable to this, but I think they would agree that we are doing it at a lower cost than it was being done before.

Mr. EVINS. You state on page 145, under field maintenance, that you are taking over some new air navigation facilities and assuming a financial responsibility for 12 military long-range radar and beacon facilities. Where are they located?

Mr. ALEXANDER. On page 146, Mr. Evins, the items in that top list, Panama City, Fla., Tampa, Alexandria, La.

Mr. HALABY. All of the ones asterisked with "1" are military and the others are joint maintenance responsibility or FAA facilities.

Mr. EVINS. Place in the record pages 145, 146, 147, and 148.
(The pages follow:)

Field maintenance

	1964 appropriation	1965 estimate	Difference
Permanent positions	9,507	9,752	+245
Amount	$113,326,000	$122,103,000	+$8,777,000

This subactivity provides for the funding necessary to the maintenance and repair of air navigation aids, traffic control, communications, and plant facilities to assure the reliability and accuracy of all installed equipment for operational needs and aviation safety.

The net additional requirements of 245 positions and $8,777,000 will provide for maintaining new facilities calling for 532 positions and $4,249,000, and institution of a new center building guard program involving 115 positions and $299,000. Details of the new requirements are discussed in detail below. Provision is also made for salary increases resulting from Phase II of the Salary Reform Act of 1962, $1,702,000; other salary requirements for within-grade salary increases and promotions resulting primarily from revised classification standards for electronic maintenance technicians, $2,028,000; and a net increase of $499,000 related chiefly to (1) additional costs for continued operation of facilities and services implemented in 1964; and (2) added salary costs associated with grade-to-grade and within-grade promotions effected in 1964. The increase of $499,000 reflects a reduction of 402 positions and associated costs through an estimated improvement in employee productivity as well as discontinuance of facilities.

New program, 647 positions, $4,548,000

An increase of $4,249,000 and 532 positions is required for maintenance of new facilities previously approved under the appropriation for construction of new air navigation facilities and for the assumption of finacial responsibility for the maintenance of 12 military long-range radar and beacon facilities involving control of civil traffic. The establishment of security guards at 23 air route traffic control center locations will require an increase of $299,000 and 115 positions in 1965. Detailed analysis of these items follows.

New facilities, $4,249,000

The additional facilities scheduled for operation in 1965 will require increased funding of $4,249,000 to provide for the additional staffing and costs such as rents, utilities, local communications charges, contractual services, and working supplies required for the maintenance of the facilities.

Air route traffic control centers and long-range radar ($2,017,000)

These facilities and associated equipment are utilized in the control of air traffic over extensive geographical areas; the long-range radar provides positive control by displaying the position of aircraft. Additional facilities and associated equipments scheduled for service in 1965, requiring 96 positions and funding of additional man-years for 264 positions available in 1964 for recruitment and training of personnel in advance of the operation of the facilities, are as follows:

LONG-RANGE RADAR (15 LOCATIONS)

Arkansas: Fayetteville
Florida:
  Panama City (Tyndall) [1 2]
  Tampa (MacDill) [1]
Hawaii: Mount Kaala [2]
Kansas: Garden City
Louisiana: Alexandria [1]
Maine: Bucks Harbor [1]
Michigan: Empire [1]
Mississippi: Crystal Springs [1]
New York: Saratoga Springs [1]
Nevada:
  Fallon [1]
  Tonopah [1]
Oregon:
  Condon [1]
  Mount Hebo [1 4]
Texas: Amarillo [1]

LINK MICROWAVE REPEATERS (30 LOCATIONS)

Kansas:
  Bethel
  Cimmarron
  Clements
  Council Grove
  Currton
  Harveyville
  Kinsley
  Lawrence
  Lyons
Kansas—Continued
  Macksville
  Montezuma
  Overbrook
  Peabody
  Spearville
  Stafford
Mississippi:
  Crystal Springs
  Richland

LINK MICROWAVE REPEATERS (30 LOCATIONS)

Texas: Houston (2 facilities)
12 additional locations associated with Bucks Harbor radar for which specific site planning has not been completed

MICROWAVE LINK TERMINALS (6 LOCATIONS)

Kansas: Garden City
Maine: Bucks Harbor
Massachusetts: Boston
Missouri: Kansas City
Oregon: Mt. Hebo
Mississippi: Crystal Springs

RADAR BRIGHT DISPLAY EQUIPMENT (16 UNITS)

Alaska:
  Anchorage (1)
  Fairbanks (1)
California: Oakland (2)
Florida:
  Jacksonville (1)
  Miami (1)
Massachusetts: Boston (1)
Minnesota: Minneapolis (1)
Missouri: Kansas City (1)
New Mexico: Albuquerque (1)
Tennessee: Memphis (1)
Texas: Houston (4)
Washington: Seattle (1)

AIR TRAFFIC CONTROL RADAR BEACON (15 LOCATIONS)

Arkansas: Fayetteville
Florida:
  Panama City (Tyndall)
  Tampa (MacDill)
Hawaii: Mt. Kaala
Kansas: Garden City
Louisiana: Alexandria
Maine: Bucks Harbor
Michigan: Empire
Mississippi: Crystal Springs
New York: Saratoga Springs
Nevada:
  Fallon
  Tonopah
Oregon:
  Condon
  Mt. Hebo
Texas: Amarillo

---

[1] Assumption of maintenance of military radars utilized to control civil air traffic.
[2] Joint-use military radar to replace FAA radar service being discontinued at Dauphin Island, Ala.
[3] Joint DOD/FAA maintenance responsibility.
[4] Military radar will replace FAA equipment at Dallas, Oreg.

CENTER AIR-GROUND PERIPHERAL COMMUNICATIONS OUTLET (25 LOCATIONS)

Alaska:
- Fire Island
- Sisters Island

Arizona: Humboldt Mountain

California:
- Mather
- Milford
- Mt. Laguna
- Paso Robles
- San Pedro
- Scarper Peak

Colorado:
- Denver
- Grand Junction
- Trinidad

Hawaii: Mt. Kaala

Idaho:
- Ashton
- Boise

Nevada:
- Battle Mountain
- Las Vegas

Oregon:
- Klamath Falls
- Salem

Utah: Cedar City

Washington:
- Ft. Lawton
- Mica Peak

Wyoming:
- Lovell
- Lusk
- Rock Springs

EXPLANATION OF NET REDUCTION

Mr. OSTERTAG. There is an increase in new programs, is there not, of $4,249,000 and 532 positions in connection with the new air traffic control and navigation aids. That is offset to a certain extent.

Mr. ALEXANDER. Yes, sir. We offset it by the productivity savings that we discussed earlier, by closing some facilities which were being replaced by more modern ones and by a position decrease in the staff and supporting activities.

Mr. OSTERTAG. I am now looking at page 142 under "Operations," and more particularly maintenance of traffic control systems. Under "New programs," you have 647 positions. Those are all new positions?

Mr. ALEXANDER. Yes, sir. These are the personnel who will be needed for the listed facilities.

Mr. OSTERTAG. Under other cost adjustments there is a decrease of 465 positions, but dollarwise it only shows a reduction of $64,000.

Mr. ALEXANDER. Yes, sir. This is offset mostly by within-grade promotions and the cost of major reclassification in this activity that occurred in fiscal year 1964, principally, so that the need to meet those costs offset the savings from the people who are being eliminated.

Mr. DEAN. Once before we referred to the summary book. Again, page 31 of that summary book will give the committee a very quick consolidation of what takes several pages in the large book.

Mr. OSTERTAG. That is pretty much the same.

What I could not understand is that when you put the two figures together under other cost adjustments, there is a reduction of 465 positions with only the net reduction of $64,000.

Mr. ALEXANDER. I can give you additional detail if you wish on this. This is made up of a number of items. This is summarized in the middle of page 143. You can follow it there. Three hundred and eighty-one jobs and $3,209,000 are involved in this productivity reduction. These are positions of people who would go off the rolls. There is a reduction of the value of 1 day's pay because there is no leap year involved in fiscal year 1965. There are discontinued facilities—that is, replaced and obsolescent facilities—65 positions at $907,000, reductions in the number of employees who were changing locations, moving of household goods and the like, $545,000. These are all

minuses to this point. The plus cost of $3,799,000 is for those new facilities which we commissioned for the first time in fiscal year 1964.

We got a late start this year. Everything is going in after the first of January.

Mr. OSTERTAG. Is that the proper place for that?

Mr. ALEXANDER. This is cost of maintaining and operating those that are going in between January 1 and June 30 of the present fiscal year.

Mr. OSTERTAG. Maintenance of new facilities?

Mr. ALEXANDER. Yes, sir. This is a plus.

Mr. OSTERTAG. So in these other costs of adjustments, the decrease in the number of positions is one thing, but it is offset by a certain amount of expense or cost with regard to maintenance of facilities?

Mr. ALEXANDER. Yes, sir.

Mr. OSTERTAG. That is the sum and substance of it?

Mr. ALEXANDER. That is correct, plus within-grade promotions and this reclassification program of the staff that took place in the current fiscal year and will cost more in 1965.

Mr. OSTERTAG. We might, Mr. Chairman, put page 31 of the summary book in the record.

Mr. EVINS. It may be included at this point.

(The page follows:)

Maintenance of traffic control system

	Change from 1964	
	Positions	Amoun
New programs:		
New facilities:		
Air route traffic control centers and long-range radar	96	$2,017,000
Airport traffic control towers and terminal area radar	71	430,000
Flight service stations	61	264,000
Air navigation facilities (VORTAC)	250	1,261,000
Instrument landing systems	17	82,000
Approach lighting	31	145,000
Miscellaneous	6	50,000
Total, new facilities	532	4,249,000
Center building guards	115	299,000
Total, new programs	647	4,548,000
Phase II pay adjustments		1,932,000
Other pay adjustments		2,087,000
Other cost adjustments	−465	−64,000
Staff and supporting services	−20	648,000
Total change	162	9,151,000

Mr. EVINS. Mr. Reporter, some of these other pages should be in the record. Insert pages 160, 161, 162, and 163.

(The pages follow:)

System supervision and services

	1964 appropriation	1965 estimate	Difference
Permanent positions	384	348	−36
Amount	$4,144,000	$3,918,000	−$226,000

Under this subactivity are included regional headquarters personnel who (1) plan, develop, coordinate, and supervise programs for maintenance and technical operation of all installed system facilities within the respective regions; (2) prescribe administrative and technical standards supplementary to national standards; (3) inspect, analyze, and evaluate regional performance and program accomplishments and institute corrective actions as required; and (4) furnish system and program performance feedback information to national headquarters.

Improved utilization of regional headquarters employees will permit elimination of 36 positions in 1965 (a 9-percent reduction). Savings resulting from this action permit a net reduction of $226,000 for this subactivity after providing increases amounting to $100,000 for pay raises under the Salary Reform Act of 1962 and within-grade salary increases.

Planning direction and evaluation

	1964 appropriation	1965 estimate	Difference
Permanent positions	157	140	−17
Amount	$1,620,000	$1,745,000	+$125,000

Funded under this subactivity are Washington-headquartered personnel who are responsible for the formulation of national system maintenance objectives, plans, and policies; development of standards and procedures for accomplishment of these objectives and plans; and evaluation of performance effectiveness, productivity, and economy of the overall systems maintenance function.

An increase of $125,000 will be required for this subactivity in 1965 after taking account of savings resulting from the elimination of 17 positions in Washington headquarters staff. Phase II pay increases under the Salary Reform Act of 1962 and within-grade salary increases account for most of this increase.

Centralized training program

	1964 appropriation	1965 estimate	Difference
Permanent positions	450	440	−10
Amount	$8,016,000	$7,843,000	−$173,000

The FAA mission requires that the Agency hire a work force of highly skilled specially trained technicians for its predominantly technical work programs. Generally, personnel possessing skills for and familiarity with Agency programs and equipment are not available outside the Agency. Formalized training courses, which span virtually all fields of the aviation industry in which the Agency is involved, are conducted largely on a centralized basis at the FAA Academy located at Oklahoma City, Okla., but training facilities are provided also at certain other geographical locations where there are significant concentrations of employees. In support of its technical work programs the Agency also conducts a management and general training program, and a program for development and improvement of instructional methods, procedures, and techniques. In summary, the major items of cost which are consolidated in the centralized training program include the following: Cost of instructor staff and related services, facilities, supplies, and equipment; student travel costs; out-of-Agency training cost; cost of planning, supervision, and direction of training program.

That portion of the centralized training program which has been established for the training of facilities maintenance specialists who are responsible for the reliable functioning of the numerous facilities and equipments which make up the national network of air traffic control systems and navigation aids, is financed directly under this heading. Included, also, is a proportionate share of the cost of conducting management, general training and training developmental activities, and the indirect costs related to planning, supervision, and direction of training programs.

The 1965 estimate reflects a decrease of $173,000 and 10 positions from the 1964 program. This decrease results from savings of $296,000, mainly in the area of contractual training and nonrecurring training equipment costs. The savings have been offset in part by additional salary requirements of $97,000 associated with phase II of the Salary Reform Act of 1962, and $26,000 for required within-grade and grade-to-grade promotions effective in 1965.

Staff and supporting services

	1964 appropriation	1965 estimate	Difference
Permanent positions	951	931	−20
Amount	$12,416,000	$13,064,000	+$648,000

This program reflects the proration to this activity of the consolidated costs and staffing of those functions dealing with the direction and control of programs and policies; coordination of international civil aviation programs; legal services management improvement; budgeting; financial reporting; accounting for funds; payrolling of employees; personnel activities; security; and other services of a general housekeeping nature, including mail distribution, printing, and duplicating. In addition this item provides for headquarters space costs, administrative suplies, communications, and telephone expenses at regional and Washington headquarters operations.

The programs categorized under this activity are wholly financed under the Operations appropriation. The basic services performed by the various program units extend to all Agency operations including those programs funded under "Operations" as well as the appropriations for "Facilities and equipment," "Grants-in-aid for airports," and "Research and development."

Workload formulas are used for determining staffing needs in a number of operations, such as payrolling, accounting, and auditing. In those areas where the work performed is primarily of a nonrepetitive nature the determination of manpower requirements is based on workload trends, past performance, as well as forseeable new requirements. In the past these factors have been used to maintain a reasonable balance in the growth of staff and supporting activities.

The change in this activity between fiscal years 1964 and 1965 for staff and supporting services is a reduction of 20 positions and a dollar increase amounting to $648,000.

The 1965 increase for this function will provide $173,000 for required pay increases associated with phase II of the Salary Reform Act of 1962, and $54,000 for additional within-grade costs. Also included are 16 positions and $545,000 for the pro rata share of the new program costs financed under this heading. The above costs have been in part offset by a reduction of $124,000 and 36 positions resulting largely from improvement in employee productivity.

OTHER OBJECTS—SYSTEM MAINTENANCE

Mr. Evins. Gentlemen, turn to other objects on page 175 which we will place in the record.

(The page follows:)

MAINTENANCE OF TRAFFIC CONTROL SYSTEM—JUSTIFICATION BY OBJECT

Summary

	1964 appropriation	1965 estimate	Difference
Permanent positions	11,449	11,611	162
Personal services and benefits:			
Personnel compensation	$92,642,600	$99,396,200	$6,753,600
Personnel benefits	6,806,500	7,340,800	534,300
Total, personal services and benefits	99,449,100	106,737,000	7,287,900
Other objects:			
Travel and transportation of persons	7,993,100	8,140,100	147,000
Transportation of things	3,490,300	3,699,000	208,700
Rent, communications, and utilities	16,410,200	17,771,900	1,361,700
Printing and reproduction	359,100	357,300	−1,800
Other services	4,912,900	4,994,500	81,600
Services of other agencies	305,800	263,100	−42,700
Supplies and materials	3,748,800	3,913,800	165,000
Equipment	3,262,900	3,225,800	−37,100
Lands and structures	31,000	16,200	−14,800
Total, other objects	40,514,100	42,381,700	1,867,600
Deduct quarters and subsistence charges	−441,200	−445,700	−4,500
Total, all objects	139,522,000	148,673,000	9,151,000

INCREASED COSTS FOR MAINTENANCE OF FACILITIES

Mr. EVINS. We notice personnel compensation and other benefits are increased about $7 million, from $99 to $106 million, and the other objects are up another $2 million. Travel and transportation is up $147,000; transportation of things, $208,700; rents, utilities, and communications, up $1,361,700. Why this increase Mr. Budget Officer?

Mr. ALEXANDER. These are attributable to the lists of the new facilities that are going to be in maintenance and operation for the first time. With the 162 net increase in people, these are maintenance technicians who are mostly in a travel status, moving from the location of the quarters to remote facilities so that the travel goes up as we add people. The same with all the other supporting costs of transportation, training costs, supply, mostly associated with the increased people. Plus the allocation of a large amount, for new space which we will discuss under staff and support services.

Mr. EVINS. With your new building your rent costs automatically ought to go down.

Mr. ALEXANDER. This is in the field, sir. Oklahoma City and other places in the field.

Mr. EVINS. We always want to try to hold down your transportation, your utilities, your printing, your supplies, and so forth. Substantial savings could be made in these areas, Mr. Alexander, if there is a determination to do so. There is an increase of $9,151,000 over last year. That is getting into money for this one operation alone.

Mr. ALEXANDER. It is an expensive operation and we have reduced travel from the last year's estimate. You will recall that in the report you asked us to look at this.

RENTAL COSTS FOR NEW BUILDINGS

Mr. OSTERTAG. You have increased rent, communications, and utilities by $1,381,000.

Mr. DEAN. We have some new buildings, Mr. Ostertag. The aviation records building in Oklahoma City, for example, and in several other locations where we must pay the rent and these come into the operations for 1965.

Mr. OSTERTAG. This is a reimbursement to GSA?

Mr. DEAN. There is some reimbursement to GSA, under the present regulations, during the first year that space is provided, that is until GSA can pick up the rental cost in its regular budget. Until then, our agency must pay for it. In Oklahoma City we permanently pay the rent and we have a substantial increase there, because of a brandnew building which this committee considered a couple of years ago will be ready early in the next fiscal year.

Mr. OSTERTAG. In a few words, how do you account for the increase of $1,361,000?

Mr. ALEXANDER. One portion of that, Mr. Ostertag, that I failed to mention, as a facility is installed, a radar on a mountaintop or on somebody's farmland, there is a land-use cost that goes with it. The major part of the rentals here, are for the 4,000 or 6,000 locations where we pay land-use rent.

Mr. OSTERTAG. This item sticks out like a sore thumb in connection with the rest of your "Other objects."

Mr. ALEXANDER. $382,000 of the total increase, for example, is in land rent, $657,000 for utilities; this budget also pays for the power that it takes to operate the facilities.

The amount of $58,000 for communications—all this is in that one object. This $124,000 for the space that Mr. Dean was talking about. But the major item is for the power and land use for the operating facilities in remote locations.

CENTER GUARDS

Mr. EVINS. On page 159 you indicate you want $300,000 for 115 guard positions. Where are they? What have you done before? You had no guards before.

Mr. HALABY. No, sir; we have not. As we move into these new centers which are at relatively remote locations so that there is no local police and fire force. For example, one is in Palmdale, Calif., which is out in the desert area. Almost all of them are remote, because in the previous administration when these were being sited, there was a very great concern about dispersion, about the defensibility of the

system. Most of them were put in relatively remote places. Leesburg is along a road. There is no local community, none of which to rely for the preservation of order. We are finding pilferage and there is no local police force.

Mr. EVINS. Do you man them 24 hours a day?

Mr. HALABY. Yes, sir.

Mr. EVINS. What did you do about it before?

Mr. HALABY. We have been without guards and we have been incurring risks and some damage and pilfering. The second thing that is happening is that the military are encouraging us to put into these centers cryptographic equipment. For example, the operations that were initiated on a standby basis by the President and the Secretary of Defense at the time of the Cuban crisis in October. The word would go out to our men in these centers in a secure manner, but we didn't have the cryptographic equipment so that has had to be put in and you might say that we now are able to carry out our national security role. Now, we have several instances in the last year of damage to our facilities where there has been breaking and entering, actually some equipment stolen. We have had at least one apparent sabotage incident where a cable into the Kansas City area traffic control center sometime ago was cut at a pole located about 200 feet from the center building and through this the whole center suddenly and completely went out of business.

Finally, Mr. Chairman, I guess I feel that this country is entering into a period of greater anxiety and greater tension and that the likelihood of spectacular or criminal attempts on our facilities is growing. Therefore, we proposed and the Budget Bureau, with military support, have allowed this limited number. This would not by any means guard all our facilities. It would guard what you might call a hard core of the system and the codes and cryptographic and decrypting machinery in those centers.

OTHER OBJECTS—SYSTEM MAINTENANCE

Mr. EVINS. You have a further breakdown of travel by categories on page 179. Discuss this briefly for the committee please, Mr. Alexander.

Mr. ALEXANDER. The one item of decrease is travel that would be conducted by the regional and Washington office. Supervision-type people.

A total of $89,200 of the increase is by field people. These people, located outside the regional headquarters for the maintenance of facilities and the most immediate supervisory and inspection personnel. Because of an increase in training, particularly training on newer types of gear being brought into this system, $35,900 additional will be required for training travel.

Mr. EVINS. You speak of an increase of $1,141,000 for new facilities for reporting weather facilities. My question is, isn't this being done now? An increase of $48,700 for rental of additional equipment, which will provide transmission of weather information. I thought you had been doing this all along. This is on page 182.

Mr. DAVID THOMAS. Mr. Chairman, I believe you are referring to the increased rental on the telephone and telegraph service which relates to our weather networks.

Mr. EVINS. Is it absolutely necessary to have it? Of course it is.

Mr. DAVID THOMAS. Yes, sir.

Mr. EVINS. You are renting additional facilities. Haven't you been doing this all along? What new are you going to be doing next year that you didn't do last year which would justify the increase?

Mr. DAVID THOMAS. The additional costs are for the lease of some electrowriter or telautograph equipment in traffic control facilities in order to bring to the controller weather information observed at another point. For example, the Weather Bureau may make an observation and this is a device that the weather observer can write on at his observing station and it will appear directly in written form in front of the comptroller who is talking to the airplane. This will bring more timely information into the system for the control of traffic.

Mr. OSTERTAG. There again utilities is the largest item of the increase.

Mr. DAVID THOMAS. Yes, sir. Virtually all the increase, here, and the increases previously talked about on the technical support are in the field of increased facilities.

ADMINISTRATION OF FLIGHT STANDARDS

Mr. EVINS. We will turn next to flight standards and place in the record page 193.

(The page follows:)

ADMINISTRATION OF FLIGHT STANDARDS PROGRAM

Requirements

	1964 appropriation		1965 estimate		Difference	
	Positions	Amount	Positions	Amount	Positions	Amount
Engineering and manufacturing	605	$7,083,000	566	$7,260,000	−39	$177,000
Operations and maintenance	1,747	20,685,000	1,651	20,999,000	−96	314,000
Safety regulations	16	281,000	16	288,000		7,000
Records servicing and analysis	318	3,578,000	300	3,134,000	−18	−444,000
Flight programs and management of aircraft	2,444	34,690,000	2,335	35,917,000	−109	1,227,000
Direction and evaluation	118	1,464,000	107	1,427,000	−11	−37,000
Centralized training program	489	10,136,000	491	9,790,000	2	−346,000
Staff and supporting services	502	6,554,000	490	6,895,000	−12	341,000
Total	6,239	84,471,000	5,956	85,710,000	−283	1,239,000

DECREASED POSITIONS AND INCREASED COSTS

Mr. EVINS. For 1964 you had 6,239 employed in flight standards. In 1965 you are asking for 5,956, or a decrease of 283 positions. You have an increase of $1,239,000 in funding; from $84,471,000 to $85,710,000. It follows the same pattern with some less personnel, but an increase in cost.

Mr. ALEXANDER. Mr. Evins, this increase, in total, is attributable to the phase 2 pay increase which is $1,247,000.

Except for the pay increase, all other costs are offset by our decreases, here.

Mr. OSTERTAG. If it were not for the pay increase——

Mr. ALEXANDER. This would be at a slightly less dollar cost.

Mr. OSTERTAG. If the pay increase accounts for $1,247,000——

Mr. ALEXANDER. That is summarized at page 198.

Mr. OSTERTAG. But you have decreased the number of positions by 283.

Mr. ALEXANDER. By this and other measures we have saved $1,312,000.

Mr. OSTERTAG. What I am getting at is you have an increase of $1,239,000, in spite of a decrease in personnel of 283.

Mr. ALEXANDER. There are the in-grade costs, promotions, and other built-in costs, which were offset by this decrease of jobs.

Mr. BOLAND. It would have cost you $1,312,000 more if you didn't have these reductions.

Mr. ALEXANDER. That is correct.

Mr. DAVID THOMAS. Page 37 in the little book gives a fairly good breakdown.

Mr. EVINS. Under Flight Standards you say (reading):

> The Federal Aviation Agency develops and promulgates standards and regulations applicable to the design of performance characteristics of aircraft, aircraft engines, propellers, and appliances; approves the materials and methods used in the manufacture of aircraft and aircraft components; and makes determinations regarding the original airworthiness of complete aircraft. In addition, the Agency issues certificates indicating compliance with safety standards and regulations for generic types, systems or models of aircraft, aircraft engines, propellers, and appliances (type certification); monitors factory operations and quality control systems (production certification); and approves individual aircraft as originally manufactured, or as modified in conformance with supplemental type certificates (aircraft worthiness certification).

AIRCRAFT MANUFACTURING INSPECTION

In 1960 you only inspected 383 aircraft manufacturers. Next year it rose to 475, the next year to 506. In 1963 it rose to 863; in 1964 to 955; and 1965 estimates that you will have 1,017 aircraft manufacturers that you will inspect.

What is the nature of the inspections, what type inspections, how long does it take, and what do they do? Do you go in and make a visit, have a cup of coffee and look around?

Mr. MOORE. We go to every one, including a small appliance manufacturer who may be making some radio equipments or instruments, up to an organization such as the Boeing Co., the Douglas Co., and so on. These inspectors are so assigned to the factories for purposes of quality control to see how the manufacturer is complying with our standards. These people are also pilot types who actually do the test flying of the aircraft and they are engineers who go over the details, designs, and specifics of the article itself, be it a small piece of equipment or a large.

Mr. EVINS. You have a checklist and they check each one of them out?

Mr. MOORE. No, sir; we do not check each commodity or each piece of equipment as it comes out. With the limited size of the staff we

have, we monitor and spot check to see that the standards we have developed are complied with, sir.

Mr. EVINS. Is there this many more airplane manufacturers, from 300 to 1,017?

Mr. MOORE. There has been, sir, a considerable increase, particularly in the appliance manufacturers.

We have seen in the last couple of years, as you can see from the statistics, a tremendous growth in that particular aspect of the business.

Mr. EVINS. FAA men are really in and out of the manufacturing plants all the time?

Mr. MOORE. They can't be in all of them, sir. We just don't have enough people, but they do spot check them; yes, sir.

Mr. EVINS. You anticipate being in 1,017 plants next year.

Mr. MOORE. Yes, sir. Not full time, though, sir.

Mr. EVINS. The number of aircraft types, certification projects of record, 334, up 1,132. What do these figures mean?

Mr. MOORE. Those figures are the number of projects, sir, that we have knowledge of and have requests for a certification of approval of some kind. They can be anything from aircraft, aircraft components, powerplants, propellers, any components on the airplane.

Mr. EVINS. Now, we want these jets and turboprops and piston types and helicopters all inspected and we want to know that they are in first-class order and made with the finest precision equipment, but doesn't the manufacturer do this?

Mr. MOORE. The manufacturer, of course, sir, has a very huge responsibility to see that his product complies with the standard. We monitor the manufacturer's activity to see that he does in fact comply with the standards that we have developed.

Mr. EVINS. You are going to be checking more of the various types of motors next year except helicopters and piston types. You come down in those two categories.

Mr. MOORE. What page are you referring to, 196?

DEPARTURES FROM FAA STANDARDS

Mr. BOLAND. Do you find many departures from the standards FAA has established, by manufacturers?

Mr. MOORE. We do find departures.

Mr. BOLAND. Where do most of the departures from standards established by FAA occur? You say you go from Boeing down to a little subcontractor at the end of the line. Where do most of your departures from your standards occur, away down below?

Mr. MOORE. I would say they occur through all periods of the manufacturing process. The most outstanding ones, though, the ones that come to our attention with the most impact, are the types that we find when we get ready to issue a type certificate. That is, when you actually do some final testing and you see a piece of equipment that has already been put together and our engineers see, for example, that it is not properly installed, that it will not, after a rigid flight test, sustain the type of stresses we require to be put on.

Mr. BOLAND. Of course, the manufacturer is interested in getting the best piece of equipment in the air that he can and he wants to make sure he abides by the standards, doesn't he?

Mr. MOORE. That is correct.

Mr. OSTERTAG. This general justification deals in part with the future and progress and developments and changes that are taking place in the aviation field; isn't that correct?

Mr. MOORE. It involves today's projects as well.

Mr. OSTERTAG. Well, you are looking ahead, too?

Mr. MOORE. Yes, sir.

Mr. OSTERTAG. The number of passengers, the different new types of aircraft. You have even mentioned the supersonic transport which is a long way off.

Mr. HALABY. That's right.

Mr. OSTERTAG. I think there is some very enlightening and some very pertinent information here, Mr. Chairman, on these pages 194, 195, 196, and 197. I think they are very revealing and might well go in the record at this point.

Mr. EVINS. The pages will go in the record.

(The pages follow:)

ADMINISTRATION OF FLIGHT STANDARDS PROGRAM

GENERAL JUSTIFICATION

The primary objective of this program is to assure the highest possible degree of aviation safety. Within the framework provided by title VI, Federal Aviation Act of 1958, the administration of flight standards program provides for the development, promulgation, and administration of the safety standards, rules, and regulations (other than those involving the physical fitness of airmen and the control of air traffic) applicable to the airmen, aircraft, and operations involved in all U.S. civil aviation throughout the world. As part of its safety program, this program provides for the operation and maintenance of a fleet of aircraft to continually monitor the accuracy of signals emitted by the aids to air navigation in the common system and to develop flight procedures for use by U.S. civil and military aviation and foreign air carriers operating into the United States. It also provides for a system of registration and recordation of airmen and aircraft under title V, Federal Aviation Act of 1958.

Continuing growth in the aviation industry has been stimulated by an expanding economy, shifts and increases in population, public education and approval of jet-powered and V/STOL aircraft, and the ever-increasing use of aircraft in air taxi, executive, agricultural, and industrial operations. The impact of this expansion has been intensified and compounded by the rates at which jet-powered and V/STOL aircraft have been added to the fleets of both the air carriers and general aviation. A major portion of program activity is continuing to be devoted to the revision of safety rules, regulations, and standards to cope with increasingly complex problems.

Jet-powered cargo aircraft have now been introduced into supplemental air carrier service. This has created new and unique training and operational problems for the supplemental carriers and has required increased surveillance of this particular type of operation. The development, production, and operation of supersonic transport aircraft and a short-haul DC–3 replacement aircraft are now priority projects of the Agency. These aircraft will eventually have a major impact upon all flight standards programs.

ENGINEERING AND MANUFACTURING

The Federal Aviation Agency develops and promulgates standards and regulations applicable to the design and performance characteristics of aircraft, aircraft engines, propellers, and appliances; approves the materials and methods used in the manufacture of aircraft and aircraft components; and makes determinations regarding the original airworthiness of complete aircraft. In addition, the Agency issues certificates indicating compliance with safety standards and regulations for generic types, systems, or models of aircraft, aircraft engines, propellers, and appliances (type certification); monitors factory operations and quality control systems (production certification); and approves in-

dividual aircraft as originally manufactured, or as modified in conformance with supplemental type certificates (airworthiness certification). Some indicators of trends in engineering and manufacturing are:

	1960	1961	1962	1963	1964	1965
Number of manufacturers subject to FAA inspection	383	475	506	803	955	1,017
Number of all type certification projects of record	342	701	800	965	1,116	1,290
Number of aircraft type certification projects of record	334	620	720	838	974	1,132

AIR CARRIER AVIATION

This program is primarily concerned with the development, promulgation, and enforcement of safety standards and regulations applicable to the qualifications and technical proficiency of the airmen who operate and maintain the air carrier fleet and the procedures used by the air carriers in the operation and maintenance of their aircraft.

The growing utilization of jet-powered aircraft has had its greatest impact upon air carrier aviation. Preflight planning, airborne operations, and maintenance of jet aircraft are far more complex and sensitive to the slightest errors than reciprocating aircraft. These circumstances have required much more stringent safety regulations and standards than those applicable to piston-powered aircraft. Since the effectiveness of a safety standard is directly related to the degree of conformity by industry, it has become necessary to maintain closer surveillance and perform more frequent inspections of air carrier operations to assure this conformity. Also, because of the complexities of the many types of aircraft and powerplants, it has become necessary to train and utilize inspection personnel to greater degrees of specialization. Continuing emphasis will be placed on developing standards and procedures for the lowering of air carrier weather minimums.

A continuing expansion is anticipated in the use of V/STOL aircraft in air carrier operations. The interests of safety require revised rules, regulations, and standards, and higher degrees of surveillance in this type of operation. Some indicators in trends in air carrier aviation are:

	1960	1961	1962	1963	1964	1965
Air carrier fleet:						
Jet	84	202	319	397	437	554
Turboprop	216	230	261	264	267	270
Piston	1,812	1,678	1,505	1,368	1,310	1,226
Helicopters	23	25	19	20	16	18
Total fleet	2,135	2,135	2,104	2,049	2,030	2,068
Number of passengers (in millions)	62.2	61.8	66.6	70.7	76.1	78.7

GENERAL AVIATION

"General aviation" is the term used in grouping all types of flying activity other than that performed by air carriers and the military. Included in general aviation are aerial application of agricultural chemicals, all types of business and industrial flying such as transportation of executive personnel, aerial photography and pipeline patroling, air-taxi service, flight instruction, and all pleasure and recreational flying.

All classes of general aviation have been expanding during recent years and their growth is expected to continue. Business flying is presently the most substantial segment of general aviation accounting annually for over 5 million flying hours. The business fleet includes more than 7,000 multi-engine aircraft and business executives are making increasing use of jet-powered aircraft manned by professional crews.

One area of general aviation which has expanded at a faster rate than the industry as a whole is air-taxi service. With jet airports being located further from metropolitan centers and with congestion of ground transportation increasing, it is anticipated that the growth of air-taxi service will continue.

General aviation continues to acquire and operate turbojet, turboprop, and large piston-engine aircraft which are new to them. In this process, the interests of safety require that rules and regulations be reviewed and revised, that the proficiency of the airmen to fly and maintain the general aviation fleet meet prescribed standards which will assure safe operations, that a continuing program of safety education be conducted by upgrading airman standards, skills and knowledge, and that the flight procedures and maintenance facilities used by general aviation be monitored at sufficiently frequent intervals to assure compliance with the standards applicable to heavier and more complex aircraft. Some indicators of trends in general aviation are:

	1960	1961	1962	1963	1964	1965
Active aircraft	68,727	76,549	80,632	84,121	87,500	90,000
Active pilots	359,875	348,062	352,860	360,000	373,000	385,000
Certificated air-taxi operators	2,624	2,695	2,810	3,010	3,250	3,500
Certificated repair stations	722	824	940	1,075	1,150	1,230

FLIGHT PROGRAMS AND MANAGEMENT OF AIRCRAFT

Inherent in the discharge of Agency responsibilities is the availability of a fleet of aircraft for use in the divergent and complex functions for which they are required. This program provides for the management, operation, and maintenance of these aircraft, which range from the single engine to the high-performance, multiengine jet types and in total number exceed 125. The major part of the resources and aircraft included herein are required by the Agency, as part of its general flight safety program, for performing facility flight inspection to certify the reliability of signals emanating from ground electronic equipment as aids to air navigation. These inspection flights are made to calibrate newly installed, relocated, or modified air-navigational facilities, with periodic surveillance to assure continued accuracy.

Mr. OSTERTAG. Perhaps the Administrator has referred to this in his earlier discussion, but at page 196 there is a table comprising the number of passengers that will be using air traffic and air aviation during the next year. There is an increase of 2,600,000 over last year and there has been an increase since 1960 of 16,500,000 passengers.

REPAIR STATIONS AND FLIGHT SERVICE STATIONS

Mr. EVINS. The next table on 197 is also interesting. It shows the active aircraft increases from 68,000 in 1960 to 90,000 in 1965 and active pilots from 359,000 to 385,000 in 1965. And air taxi operators from 2,624 in 1960 to 3,500 in 1965; and certified repair stations, 722 in 1960 to 1,230 in 1965. This all ties in with what we were discussing earlier about the general growth in aviation, the number of pilots, the number of airplanes, the number of miles traveled. And yet the Administrator wants to cut down the flight service stations.

You refer to repair stations and service stations. There is a great difference between a service station and a repair station.

Mr. HALABY. At the flight service station you get service primarily related to weather, flight information, flight planning, and occasionally as you know, from some experiences down in Tennessee, we save people by talking them down through the weather or through the hills. That is the flight service station. The certificated repair station is a private enterprise. Sometimes it is a substantial company, sometimes a small business with a handful of certificated

airplane mechanics. Because they have demonstrated over the years their reliability, we give them a certificate. A man can go in there and have his airplane fixed with confidence that if it is signed off by one of our certificated mechanics, it is acceptable.

Mr. EVINS. That is fine. Let's maintain and preserve these small business enterprises.

Mr. JONAS. That is where you assume some liability, though?

Mr. HALABY. We have not had too many law suits as a result of careless or negligent maintenance by one of the private companies we have certified. There have been some complaints by individuals who say, "I bought this airplane, or had this airplane maintained at one of your stations, and therefore you are liable," but I do not believe many judgments have been rendered or many claims have been paid.

Mr. JONAS. As you do assume more and more responsibility you increase the liability?

Mr. HALABY. Yes, sir. We are not assuming any higher level of responsibility. We are stating that there is an increasing number of these stations which require people to go and inspect them and certificate them and we are doing it with the same or fewer personnel in toto.

FLIGHT PROGRAMS AND MANAGEMENT OF AIRCRAFT

Mr. EVINS. We will place in the record page 204.

(The page follows:)

Flight programs and management of aircraft

	1964 appropriation	1965 estimate	Difference
Permanent positions	2,444	2,335	−109
Amount	$34,690,000	$35,917,000	+$1,227,000

This program includes funds for: (1) operating costs such as fuel and line maintenance of Agency-owned and specified rental aircraft (except those utilized in research and development and training activities); (2) major maintenance of Agency-owned aircraft (except those utilized in research and development); (3) flight crews required to perform flight inspections and procedures functions; (4) flight procedures specialists; (5) analysis of flight inspection data; and (6) personnel associated with the management of the aircraft fleet.

The types of aircraft operated range from relatively simple single-engine rental aircraft to long-range multiengine aircraft. These aircraft are used: (1) for in-flight inspection and evaluation of air traffic control and flight procedures; (2) for in-flight inspection of the electronic aids employed in the civil and military systems of air navigation; and (3) by personnel in performance of their inspection duties and other assigned job functions.

The 1965 requirements for this function reflect the need for an increase in funding of $1,227,000 over 1964. Also reflected is a reduction in staffing of 109 positions. Major cost elements which affect the change in requirements for 1965 are $458,000 for salary increases required by phase II of the Salary Reform Act of 1962, $193,000 for within-grade increases and grade-to-grade promotions to be reflected in 1965. In addition, an increase of $576,000 and decrease of 109 positions in necessary. These amounts reflect the net change resulting from decreases, due chiefly to staffing reductions resulting from anticipated improvements in employee productivity and Washington reductions, offset by a necessary increase in 1965 funding required chiefly for additional aircraft overhauls scheduled in 1965 and for additional high-altitude facility flight check hours scheduled in fiscal year 1965.

OTHER OBJECTS—FLIGHT STANDARDS

Mr. EVINS. Now we will turn to the justification of other objects, 218, 219.

(The pages follow:)

ADMINISTRATION OF FLIGHT STANDARDS PROGRAM—JUSTIFICATION BY OBJECT

Summary

	1964 appropriation	1965 estimate	Difference
Permanent positions	6,239	5,956	−283
Personal services and benefits:			
Personnel compensation	$54,292,800	$56,521,000	$2,228,200
Personnel benefits	4,138,900	4,454,400	315,500
Total, personal services and benefits	58,431,700	60,975,400	2,543,700
Other objects:			
Travel and transportation of persons	4,326,600	4,261,600	−65,000
Transportation of things	658,700	672,200	13,500
Rent, communications, and utilities	2,808,000	2,810,600	2,600
Printing and reproduction	277,400	289,200	11,800
Other services	6,647,500	6,119,900	−527,600
Services of other agencies	1,674,300	1,965,300	291,000
Supplies and materials	7,472,300	7,441,200	−31,100
Equipment	2,181,000	1,181,100	−999,900
Total, other objects	26,045,800	24,741,100	−1,304,700
Deduct quarters and subsistence charges	−6,500	−6,500	
Total, all objects	84,471,000	85,710,000	1,239,000
Personnel compensation:			
Permanent positions:			
Number of positions	6,239	5,956	−283
Base pay	57,654,926	56,472,778	−1,182,148
Lapse	−5,394,926	−1,756,578	3,638,348
Base pay, less lapse	52,260,000	54,716,200	2,456,200
Positions other than permanent	181,600	154,900	−26,700
Other personnel compensation:			
Pay in excess of 52-week base	428,500	214,500	−214,000
Overtime and holiday pay	720,200	729,000	8,800
Nightwork differential	96,200	96,600	400
Additional pay for service abroad	221,700	221,700	
Compensation of witnesses	8,300	8,200	−100
Cost-of-living allowance	376,300	379,900	3,600
Total, personnel compensation	54,292,800	56,521,000	2,228,200
Personnel benefits:			
Government contribution to employee insurance programs:			
Group life and accidental dismemberment	159,400	171,500	12,100
Health benefits	327,600	325,000	−2,600
Government contributions to employee retirement programs:			
Civil service retirement fund	3,246,100	3,484,200	238,100
Social security	13,800	13,100	−700
Employee awards	118,400	142,100	23,700
Uniform allowance	200	200	
Quarters allowance	199,100	213,300	14,200
Dependents education allowance	74,300	105,000	30,700
Total, personnel benefits	4,138,900	4,454,400	315,500
Total, personal services and benefits	58,431,700	60,975,400	2,543,700

DISTRICT OFFICES

Mr. BOLAND. With regard to the general safety and district offices, are you going to abolish the district offices under this program?

Mr. HALABY. We have, I think, over the last 3 years, consolidated a few of them, Mr. Boland. We do not have a program at this time

for any additional consolidations of those offices. They are pretty tightly consolidated, now. As you know, they survey a particular carrier or group of carriers at generally their headquarters.

Mr. EVINS. Government insurance and employees allowances and quarters and other benefits are shown on page 219. There is an increase from a total of $58,400,000 to $60,975,000, two and a half million increase in personnel services and benefits. You give the explanation on the following page. Are there any questions?

This brings us down gentlemen to medical standards, and we will stand adjourned until 10 o'clock tomorrow and start with medical program tomorrow, Doctor.

THURSDAY, FEBRUARY 27, 1964.

ADMINISTRATION OF MEDICAL STANDARDS

Mr. EVINS. The committee will come to order and we will take up this morning the administration of medical standards.

Mr. Administrator, we will place in the record pages 234, 235, 236, 239, 240, 243 and 244 the summary of aviation medicine activities.

(The pages are as follows:)

ADMINISTRATION OF MEDICAL STANDARDS

GENERAL JUSTIFICATION

The objective of this activity is to apply aviation medicine knowledge to the safety and promotion of civil aviation. These functions include the development of standards and regulations governing the mental and physical fitness of airmen and other persons associated with safety in flight; medical certification of airmen; clinical, occupational, and employee health program; medical participation in the investigation of civil aircraft accidents; supervision of a medical education program and development of a medical plan in support of the Agency's defense readiness program; and directing and supervising a research program needed for the solution of aeromedical problems.

A designated aviation medical examiner program is directed and supervised under this activity. This program involves (1) the designation of approximately 5,800 practicing physicians with authority to perform annually an estimated 400,000 medical examinations of civil airmen, and (2) the participation in investigation of aircraft accidents. Specific functions of the office include the training of the examiners through such means as seminars, monitoring the performance of the examiner, and seeking additional and/or replacement of examiners.

The continued growth in the civil aviation population generates a yearly workload increase in this program. The primary concern relates to the medical certification of airmen and assuring that the standards and procedures used to qualify airmen are kept current. The necessity for renewal, reevaluation, and redirection of medical standards activities is a vital and lasting requirement. At the same time, the program is looking forward to furnishing educational and other material to the general public that will improve their safety in flight. The supersonic transport aircraft will present new and highly technical medical problems that must be evaluated and resolved in the foreseeable future.

Special efforts are continually being made to absorb the normal rate of growth by reevaluation of current operating procedures and implementing new and better management practices which assure maximum production. An example of improved management techniques, implemented to conserve manpower and make wider use of available information at reasonable cost, was the conversion of medical records to automatic data processing. Through the use of computer services, new procedures are being used which furnish better and more timely

service to airmen. It is contemplated that through the implementation of management improvement procedures the aviation medical program will be conducted without increased manpower in 1965.

The fiscal year 1965 funding requirements for the administration of medical standards program, set forth above, are summarized as follows:

	1964	1965	Difference
Positions	277	277	
Amount	$3,950,000	$4,195,000	+$245,000

The increase of $245,000 provides chiefly for required pay increases, mandatory within-grade increases, and funding for additional average employment necessary to carry out the program outlined above. No new staffing is requested for 1965 under this activity. Changes in the 1965 program are summarized in the following table and discussed in detail in the following pages:

	Positions	Amount
Direct costs:		
Phase II pay increases		$68,000
Other pay adjustments		21,400
Other cost adjustments		105,600
Staff and supporting services		50,000
Total		245,000

Phase II pay increases, +$68,000

This category of cost represents the amount required to meet the cost of that portion of the pay increases authorized by Public Law 87-793 and becoming effective in January 1964. The estimate is based on employment in general schedule grades as of January 1, 1964, and was computed on a grade-by-grade basis to give proper weight to the different amount of increase for each grade level. The amount included in this estimate represents the difference between the total yearly value of the increase and the amount which was payable in 1964. On the average, this estimate is 51.5 percent oof the total yearly costs.

Other pay adjustments, +$21,400

During the fiscal year 1965, $21,400 will be required to finance within-grade salary increases and additional salary costs of personnel who will be qualified for and promoted to higher grade levels than positions occupied during 1964. The cost of within-grade salary increases will amount to $14,900 after adjusting for savings in within-grade costs due to turnover. This estimate is based on present grade levels of employees in this activity and the length of time they have been in present grade levels. In addition, it is anticipated that 11 employees will qualify for initial grade-to-grade promotions after acquiring sufficient on-the-job experience to meet position qualifications established by the Civil Service Commission. The costs during 1965 of these grade-to-grade promotions will amount to $6,500.

Other cost adjustments, +$105,600

An increase of $105,600 is required chiefly for financing the cost of increased average employment in 1965.

Staff and supporting services, +$50,000

Staff and supporting services costs allocated to this activity in 1965 will increase by $50,000 because of increases arising primarily from additional rents and communications costs, pay increases, and other salary increases.

Summary of aviation medical activities under congressional limitation

	1964 appropriation		1965 appropriation		Difference	
	Positions	Amount	Positions	Amount	Positions	Amount
Administration of medical standards activity:						
Operations appropriation:						
Washington and Aeronautical Center:						
Medical standards	132	$1,470,000	132	$1,645,000	.....	$175,000
Research direction	23	994,000	23	980,000	.....	−14,000
Regional operations: Medical standards	67	778,000	67	812,000	.....	34,000
Total, operations	222	3,242,000	222	3,437,000	.....	195,000
Aviation medicine activity:						
Research and development appropriation:						
Direct research:						
Civil Aeromedical Research Institute (Aeronautical Center)	75	1,440,000	75	1,420,000	.....	−20,000
Washington (Georgetown facility)	25	400,000	25	430,000	.....	30,000
Total, research and development	100	1,840,000	100	1,850,000	.....	10,000
Total, direct program	322	5,082,000	322	5,287,000	.....	205,000
Staff and supporting services	55	708,000	55	758,000	.....	50,000
First aid stations, Dulles International and Washington National Airports	8	64,700	8	68,800	.....	4,100
Employee health program, NAFEC	2	24,000	2	24,300	.....	300
Public and employee health facilities, Wake and Canton Islands	5	60,000	5	67,200	.....	7,200
Employee health program (payment to Department of State)	.....	5,500	.....	5,500	.....	.....
Employee health program (payment to Panama Canal Company)	.....	11,200	.....	12,600	.....	1,400
Automatic data processing of airmen medical certification records	14	118,200	14	120,600	.....	2,400
Total	406	6,073,600	406	6,344,000	.....	270,400

EXPLANATION OF LIMITATION CHANGE

The 1965 estimate for programs included under the limitation on aviation medical activities does not reflect any position change but does provide for an increase of $270,400. This amount includes $195,000 for the medical standards activity and $50,000 for the staff and supporting services activities, described in detail on the preceding pages. The remainder of the increase, $25,400, is required to finance the additional salary costs arising from the phase II increment of the Salary Reform Act of 1962.

ADMINISTRATION OF MEDICAL STANDARDS—JUSTIFICATION BY OBJECT

Summary

	1964 appropriation	1965 estimate	Difference
Permanent positions	277	277	
Personal services and benefits:			
Personnel compensation	$2,199,500	$2,410,600	$211,100
Personnel benefits	159,600	177,500	17,900
Total, personnel services and benefits	2,359,100	2,588,100	229,000
Other objects:			
Travel and transportation of persons	293,400	301,700	8,300
Transportation of things	20,200	20,800	600
Rent, communications, and utilities	812,900	834,200	21,300
Printing and reproduction	23,900	24,600	700
Other services	168,500	185,200	16,700
Services of other agencies	48,900	48,900	
Supplies and materials	120,900	123,900	3,000
Equipment	110,400	75,800	−34,600
Total, other objects	1,599,100	1,615,100	16,000
Deduct quarters and subsistence charges	8,200	8,200	
Total, all objects	3,950,000	4,195,000	245,000
Personnel compensation:			
Permanent positions:			
Number of positions	277	277	
Base pay	2,242,251	2,411,162	168,911
Lapse	−159,451	−108,562	+50,889
Base pay, less lapse	2,082,800	2,302,600	219,800
Positions other than permanent	17,300	16,100	−1,200
Other personnel compensation:			
Overtime and holiday pay	44,800	43,200	−1,600
Cost of living allowance	24,400	25,600	1,200
Nightwork differential	1,600	1,600	
Additional pay for service abroad	12,300	12,300	
Compensation of witnesses	100	100	
Pay in excess of 52-week base	16,200	9,100	−7,100
Total, personnel compensation	2,199,500	2,410,600	211,100
Personnel benefits:			
Government contribution to employee insurance program:			
Group life and accidental dismemberment	6,400	6,900	500
Health benefits	12,900	13,400	500
Government contribution to employee retirement program:			
Civil service retirement fund	126,900	140,800	13,900
Social security	4,100	4,100	
Uniform allowance	2,100	2,100	
Other personnel benefits	600	600	
Employee awards	6,600	9,600	3,000
Total, personnel benefits	159,600	177,500	17,900
Total, personal services and benefits	2,359,100	2,588,100	229,000

Mr. EVINS. We have Dr. M. S. White, the Air Surgeon.

Dr. White, are you a new man with the Federal Aviation Agency?

Dr. WHITE. Yes, sir.

Mr. EVINS. How long have you been with the Agency?

Dr. WHITE. Five months, sir.

Mr. EVINS. Will you give us a little bit of your background and tell us something about yourself? We are glad to see you and welcome you and wish you success and good luck. You have already been confirmed. Tell us something about your background.

Dr. WHITE. Thank you, sir. I entered the military service and have been a member of the military service for 32 years. I have had a varied experience in the military service in various command jobs and educational jobs and professional work. I have been a flight surgeon in aviation medicine since 1935.

Mr. EVINS. What is your medical college?

Dr. WHITE. University and Belleview Hospital Medical College, which is now called New York University Medical College.

Mr. EVINS. You have had a distinguished career in the military service, more than 30 years.

Dr. WHITE. Thank you, sir.

Mr. HALABY. Mr. Chairman, he may be a little modest in his statement of his qualifications. Among other things, he was one of the three top men in aerospace medicine in the Air Force, and he was willing to take this job at the peak of his Air Force career with all of the civilian and social and political problems that he finds here that he didn't find there.

He has also been active in the Aerospace Medical Association and he was selected after we convened a panel of the top aerospace medical men in the country, and they went over a number of candidates and nominated him to me. We are fortunate in getting the Secretary of the Air Force and Sam White to concur in this. I can see even in these 5 months he has taken hold of this activity and done an excellent job. He knows all that is going on in the other aviation medical research fields and therefore he brings to it a kind of protection in which this committee has been interested, that there be the least possible duplication or overlap between this medical research and that going on in the Air Force and the Navy and in the National Institutes of Health and elsewhere.

Mr. EVINS. Very fine.

Mr. JONAS. Dr. White, are you a retired Air Force officer?

Dr. WHITE. No, sir; I am on active duty, loaned to the Federal Aviation Agency.

Mr. JONAS. Has your experience in medicine been in the Air Force?

Dr. WHITE. Yes, sir; since 1935. It was Army Air Corps at that time. It became Air Force in 1949.

Mr. JONAS. Mr. Administrator, how do you get a service to lend somebody to you? Whose payroll is he on, the Air Force or the FAA?

AUTHORITY FOR ASSIGNMENT OF MILITARY PERSONNEL

Mr. HALABY. The Federal Aviation Act, which converted the Civil Aeronautics Administration into the Federal Aviation Agency, contains a specific provision for the assignment of military personnel, and there have been as many as a couple of hundred at any one time.

The arrangement is a request from me to the Secretary of the Air Force. The Secretary of the Air Force then assigns him and orders are prepared by the Chief of Staff of the Air Force, and we pay General White by reimbursing the U.S. Air Force.

I think it is fair to point out General White has made a sacrifice in coming here. He had a very important position in his post in San Antonio. He had quarters and other appropriate requisites of his rank. He has given all that up and come here at the same salary, which, of course, is far below what he, as a private practitioner would be earning. And of course, that is what makes it difficult to obtain men in these jobs when they can earn at least three times as much in private medical practice.

There has been some criticism of my asking a military officer to assume this position. I have answered that criticism by saying that the important thing here is the merit, is the quality of the individual, and not what kind of clothes he wears. He has lived with pilots and engineers and mechanics and airmen all of his medical professional life, and that is the important thing.

Mr. EVINS. The Doctor has eminent qualifications and experience. We wish you well, Doctor.

PROBLEMS IN AVIATION MEDICAL PROGRAM

What are your main problems and what are you proposing to do in your division?

Dr. WHITE. Our main problems have been principally the organization of our capabilities to provide the medical support required to improve safety in civil aviation. We have been working under a limitation for medical activities for the last few years and in fact, this probably has been pretty healthy as far as I am concerned, in order to get me oriented to our real problems in the Agency, because immediately upon being faced with this limitation I had to make a careful analysis to determine where we could function best with the personnel and what we have. We have done that and we feel we can function, as we have indicated in the presentation of the budget for this fiscal year, at the same position level that we have under the current limitation in order to permit us to regroup and actually analyze in a clear-cut fashion the problem areas and our true requirements.

ACTIVITIES OF PHYSICIANS

Mr. EVINS. Your general justification says that your programs involve approximately 5,800 practicing physicians with authority to perform annually an estimated 400,000 medical examinations of airmen, and also participation in investigation of aircraft accidents. I thought the CAB investigated accidents. I didn't know the medical division did that. Are you actually engaged in investigation of accidents?

Dr. WHITE. Yes, sir; there is a great deal being done, particularly by this group of 5,800 aviation medical experts who are a dedicated group of civilian physicians designated by the Federal Aviation Agency to conduct the examination of the airmen.

Mr. EVINS. Before they fly, or during their flights or qualifications for flying?

Dr. WHITE. Their qualifications, and in addition to that, these examiners have volunteered to participate in the investigation of aircraft accidents, particularly in general aviation. As you know, the CAB has delegated to the Federal Aviation Agency investigations of the light craft accidents in most instances and to indicate the importance of this with the great number we have, I just had reported preliminarily for calendar year 1963, 156 pathological, or post mortem examinations that we have had on individuals involved in general aviation light craft where the flight inspectors considered that alcohol was only suggestive in about 3 of these 156 cases. Through work of our aviation medical examiners and pathological investigations, we found that over one-third had levels of alcohol in their blood which indicated they were legally intoxicated. This is just one form of investigation that is done. We investigate the individual in the aircraft, the type of trauma that has occurred. For instance, we have found in our pathological investigations that many individuals don't demonstrate any outward trauma but inwardly when an autopsy is done we find they have had shearing of large blood vessels of the body due to various forces being exerted in the deceleration of the crash.

Mr. EVINS. Your certified physicians examine civilian pilots and also participate in a local accident if it is in their area?

Dr. WHITE. Yes, and this is without cost to the Government. These men volunteer their own time and their own secretarial work in preparing reports and performing this form of function.

Mr. EVINS. This is an auxiliary report that goes into the compilation of reports?

REEVALUATION OF MEDICAL STANDARDS

Dr. WHITE. These are the reports that come in to us and this is one of our problem areas, because of the limitations we have not been able to analyze all these reports. We have had a wealth of material that is being developed in the aircraft accident field that will be tied in with the status of the airman and his other pilot activities, where physical status should eventually contribute to the standards that are required for safe flying.

Mr. EVINS. You speak of the necessity for renewal and reevaluation and redirection of medical standards. What are you doing in this area?

Dr. WHITE. This is directly related to aircraft accident reports as I have mentioned, and to determine whether our standards are safe enough without undue restrictions. We find, for instance, because of a capability that has just been developed in the last 2 years of transferring all our examination records to automatic data processing techniques, that we have over 20,000 third-class airmen flying now with vision in one eye which is considered industrially, legally blind—20/200 in one eye. And they are doing fairly well. We haven't been able to analyze this, yet, with reference to aviation accidents, but because of this it possibly may be that our standards can be relaxed.

Mr. EVINS. Suppose you have a good airman or a pilot—we will call him "X"—and a couple of years later he develops some eye impairment or shows evidence of drinking and you keep on certifying him for flying. How do you revoke his license? How do you stop him from flying? He loves to fly and wants to keep it up. What powers do you have to prevent him from continuing? He was a good man at one time, but he shows weaknesses at other times. What do you do?

Dr. WHITE. If the disqualification is of such nature that it will not interfere with his performances as a safe airman, this is noted on his records and examination and processed through proper channels and the individual is in most cases usually qualified. If he has a deficiency such as you have mentioned which could be considered unsafe, such as alcoholism, and this is definitely documented, the individual's certificate is denied. This being done by one of the 5,800 aviation medical examiners.

Mr. EVINS. If you have evidence that he still owns his plane after his certificate has been denied and he still is flying, what can you do?

Dr. WHITE. This then becomes an administrative matter which must be handled through legal channels that are not concerned with the medical operations. We would report this to the proper section of our Flight Standard Service.

MEDICAL STANDARDS INVOLVED IN SUPERSONIC AIRCRAFT

Mr. EVINS. What are your problems with respect to the supersonic aircraft and high altitude flying, and what are you doing? What advances have you made? What progress are you making?

Mr. OSTERTAG. Mr. Chairman, in this budget Administration of Medical Standards is one thing, but this is not directly applicable to medical research. Isn't that correct?

Dr. WHITE. No, sir. I think definitely that is an excellent point you have just presented, because we have the question before us of what we are doing in the supersonic transport. Our medical research cannot be taken in the context of being research alone. All the medical research that is being performed in the Federal Aviation Agency must be tied in with the entire medical picture which is related to certification, particularly of the air crews, and with standardization. That is, the standardization is required in aircraft for proper environmental health for air crews and passengers. All our research is directed toward civil aviation progress related to safety standards.

Mr. OSTERTAG. According to your justification the program involves the designation of a certain number of positions with authority to perform annually an estimated 400,000 medical examinations of civil airmen and the participation in investigation of aircraft accidents, and so on. Then subsequent to that you point out that the supersonic air transport will present new and highly technical medical problems that must be evaluated and resolved in the foreseeable future.

I grant you that is true, but does that actually come under the Administration of Medical Standards, rather than under research looking toward the future problems in supersonic operations? I grant you that there is a need for that, but does it properly come under Medical Standards?

Mr. HALABY. I think what Mr. Ostertag is interested in, the budget is divided up in terms of Administration of Medical Standards under "Operations" at page 234. There are, I believe, 23 jobs in there that constitute the leadership and executive direction of both the Administration of Medical Standards and the top supervision of the research program. He just wanted to be sure to clarify the point that here under this Administration of Medical Standards there are some jobs that also relate to medical research. For example, your own. Isn't that the point?

Mr. OSTERTAG. Yes; that is the point.

Dr. WHITE. I thought perhaps I could clarify it, also, by indicating in the development of standards we don't know yet what type of requirement should be established for the pilot who flies the supersonic transport. When we determine this, probably through research efforts and other investigations, then standards—physical standards—would be set with reference to the pilot. We don't know the type of environment or protective devices to be written into the airworthiness standards for the protection of the passenger in the supersonic transport, yet. With proper research directed along these lines, the standards can then be written that will prescribe these for industry.

DUPLICATION IN MEDICAL RESEARCH

Mr. OSTERTAG. The military carry on a considerable amount of medical research. Are you coordinated with them in any sense?

Dr. WHITE. Yes, sir.

Mr. OSTERTAG. Are you duplicating the same effort?

Dr. WHITE. I share your concern. Everyone has directed their attention toward this so-called wasteful duplication of research in certain agencies and even in industry and civilian medicine. We can assure you that we have very fine techniques to guarantee there is no duplication in the Federal Aviation Agency of research carried on by any other Government department or even civilian industry or institutions.

We have a Council of Research Advisers that meets two or three times a year that is composed of representatives of each of the military services, as well as numerous other scientists from throughout the country, who review all our research projects and determine the priority, whether they should be terminated or whether they should be continued. This is just one technique. Another is through the Scientific Information Exchange in which we list all research projects undertaken by the Federal Aviation Agency. Another is with our closely coordinated liaison with various other professional personnel, and in the very fine Federal office building where we are located, we are located right close to the NASA building. We have fine cooperative relationships with the medical people in NASA to assure our research is being directed along individual channels and is not duplicative. But actually in civil aviation medicine, research has been untouched. This is one of the deplorable conditions that existed prior to the Federal Aviation Act of 1959 in which it was recognized that something needed to be done for the establishment of the then Civil Air Surgeon's Office.

Interestingly, I was a member of the committee, the national committee that represented the American Medical Association at that time, that determined that the military and the other agencies were not touching the research required in civil aviation.

Mr. OSTERTAG. Thank you.

EMPLOYMENT FOR MEDICAL ACTIVITIES

Mr. EVINS. We notice you have 222 in the administration of medical standards and you have 100 in research direction; 75 at the Aeronautical Center, and 25 at Georgetown University.

On page 240, in addition to those, you have 55 in staff-supporting services; first-aid station at Dulles, 8, and 2 people in NAFEC. You have five in the employee health program at Wake and Canton.

What does this ADP mean? What do these 14 people do? You have automatic data processing and 14 people besides the machines.

Dr. WHITE. Yes, sir. There are presently 250,000 physical examination records that are processed annually at the Oklahoma City Center. That is to say, we receive over a thousand of these physical examinations a day. These must be coded by individuals who then process them through the machine as indicated here. These are individuals who work in those positions.

Mr. EVINS. In 1964, 406 personnel and 406 estimated for 1965. There is no personnel increase, but the budget jumps from $6,073,600 to $6,344,000, an increase of $270,400.

And $205,000 of this increase is in the direct program. Is most of this for salary increases?

Dr. WHITE. About half of this is for phase 2 pay increases and other pay adjustments. This is shown on page 235. The other pay adjustments, or rather the $105,000, "Other cost adjustments," includes the employment of additional personnel who were not on board at the end of the last year, due to the uncertain, or rather the upheaval of the Federal Air Surgeon's Office. There was quite a bit of uncertainty. We had no one aboard, there were many vacancies that needed to be filled. Finally, when I started organizing the Office to determine our needs, we now have 15 employees being advertised for and are now taking on 3 additional.

VACANT MEDICAL POSITIONS

Mr. HALABY. What happened was that Capt. James Goddard, who was the Civil Air Surgeon, was offered a career advancement in the Public Health Service in the Epidemiological Center at Atlanta and he felt that he had to accept the Surgeon General's request for this, and there ensued a period of searching for a man like Dr. White. We froze the positions until we found him and that, therefore, accumulated these vacancies and these costs for the full-year employment of these people whom Dr. White is now recruiting.

I might say, he has been even more successful than I expected. He recently acquired a senior medical man from the Boeing Co., very experienced in the area of research, and he has others coming.

Mr. JONAS. It is a little difficult for me to understand how, with the loss of a Director, you would be so poorly organized with nobody to

take his place, that you have to practically go into a tailspin for a period of months. You must have a second in command in these departments who can take over in emergencies. What if the Director would die? Is the program going to be jeopardized every time you make a change in the directorate?

Mr. HALABY. No, sir. There was an Acting Air Surgeon while we were recruiting Dr. White. The program did go forward, but we felt we should save the money and save the mistakes that might be made in an interim situation until we had a full-fledged Federal Air Surgeon. So we felt it was prudent to give him the opportunity to recruit high-quality staff, rather than just filling up vacancies without his leadership.

The examinations went on, the accident investigation support of CAB went on. The program of research continued under the direction of Dr. Mohler, but we were temporarily without a full-fledged Federal Air Surgeon and all I can say is, the deep-seated problem is that we are not paying people and giving them enough incentive to bring men into the Federal Government in this kind of medical job and keep them there. If the incentives were there, the turnover would be far less.

Mr. JONAS. What class of employment constituted the vacancies, Doctor? What were the vacancies? In what activities, what categories?

Dr. WHITE. These were concerned with professional personnel. For instance, in the Aircraft Accident Division which we discussed a little earlier they would rate GS–14 and GS–15 types of grades.

Mr. JONAS. Are they medical school graduates?

Dr. WHITE. Yes, sir.

Mr. JONAS. They are doctors and physicians?

Dr. WHITE. Yes, sir.

Mr. JONAS. All of them?

Dr. WHITE. No, sir; not all of them. Just the 15 we are discussing.

Mr. JONAS. Is that the number that were frozen? The Administrator said employment was frozen. Were all that you needed to recruit professional people?

Mr. HALABY. He is speaking of the breakdown of that 15. How many are professional M.D.'s approximately?

Dr. WHITE. I would have to go through the actual list but approximately I can state five would be physicians.

Mr. HALABY. And some are medical technicians?

Dr. WHITE. Yes, sir; principally.

Mr. HALABY. How many clerical?

Dr. WHITE. There would be about four clericals.

Mr. JONAS. How long did this hiatus exist?

Dr. WHITE. Actually, for about a year and a half.

Perhaps I should go back and explain a little what happened.

Mr. JONAS. Why can you do without them for a year and a half and have to have them now?

Dr. WHITE. If I go back a little, sir, and explain the organization of the Civil Air Surgeon's Office as it had existed prior to my arrival, this may be of some assistance.

Mr. HALABY. I do not think that Dr. White should have to answer for any period of time before he came into official responsibility. I think I should.

The answer to your question, Mr. Jonas, is that without a full-fledged Air Surgeon the program suffered. It was understaffed and the men who were in charge of it were waiting for the appointment of a full-fledged Air Surgeon. The Acting Surgeon incidentally had a heart attack in the course of this 15 or 18 months that Dr. White is speaking about. He had been the No. 2 man under Dr. Goddard. He was incapacitated. Dr. Reighard, the No. 3 man, stepped right into his place.

There was a period, a very unfortunate one and one for which I take full responsibility, in which we did not have a full-fledged Air Surgeon. The fact that money was saved during that period by people who were actively absorbing the workload I think is a tribute to the organization rather than a deficiency. The fact that Dr. White has come in, has surveyed the whole situation and is recruiting to fill those positions is also, it seems to me, a positive accomplishment rather than a negative one.

Mr. JONAS. That does not answer the question I asked. Maybe it cannot be answered. I still cannot understand how you got along so well for a year and a half without these extra people and now suddenly you have to have them. They weren't employed under his predecessor. They still haven't been employed, but you are now recruiting and either some work was neglected or you were able to get along without the additional people.

Mr. HALABY. The committee authorized and in fact limited the organization and funding deliberately. Now due to the absence of the leader of the organization, we deferred filling that until Dr. White came in. We justified these to you the last 2 years and I think we can justify them again.

I think the only question is whether we were wise to defer action and save money then, or not.

NATURE OF INCREASED PRODUCTIVITY

Mr. JONAS. You had presented to us yesterday a number of tables breaking out units of work. Do you have such a table with respect to this activity?

Mr. HALABY. No, sir; we do not. I do not think it is possible with doctors, but maybe Dr. White can answer that question.

Dr. WHITE. We are approaching a technique to determine work evaluations; yes, sir. We can give you specifically one productivity increase. This is on the certification of airmen which is the bread and butter of the whole medical activity.

Mr. JONAS. You could certainly show us how many you certified last year.

Dr. WHITE. Exactly. We have 250,000 and we are going up to 400,000 next year because of requirements for additional examinations. So that means where we had 1,000 of these physical examinations being processed, today we effect a more than 50-percent increase.

I might add, you stated that there must be some indication that the work was not properly being done; you are exactly right. We had a backlog of close to 4 weeks of these certification problems. That means over 16,000 of these were backlogged and we were not performing the public service needed by the airman in expediting his denial or

certification of his medical record. This is where, although we have been performing adequately, we have not been performing as well as could be done with just the addition of a few extra personnel.

Mr. JONAS. One other comment, Mr. Chairman.

Notwithstanding the fact that the table on 240 shows no increase in positions, the record shows you are going to spend $105,000 for increases in employment. That is quite aside from in-grade promotions, salary adjustments, or anything. That is additional employment, is it not?

Mr. HALABY. It is the difference we discussed yesterday between the actual employment and the funded employment; yes sir.

Mr. JONAS. It shows $105,000 increase in average employment.

Mr. HALABY. Yes; additional man-years.

Mr. EVINS. Because of the vacancies you feel you can live well within the limitation set by this committee without suffering?

RESPONSIBILITIES AT WAKE ISLAND

Dr. WHITE. I think we can perform adequately while I regroup but I know there are many areas that are untouched. I have a letter, here, from one doctor we have at Wake Island, taking care of a permanent population of 1,400, and a thousand transient population a day—over 30,000 a month pass through there and this poor doctor had three fracture cases in 2 days, including a ruptured spleen that he was able to diagnose without any additional laboratory support, at all. Now there is an instance where perhaps they should have another individual and we know they should have a dentist out there, but we are within limitations where we cannot provide a dentist.

Mr. EVINS. Doctor, you are an experienced airman and you had 32 years service with the military and the medical profession is usually pretty conservative and we just want to express the hope that you will not be building an empire because you can call on the Air Force and the Army for all of their medical knowledge and you know how to apply that. You have had experience.

Mr. JONAS. A comment by the doctor leads me to ask this question to clarify the record: Who are the 1,400 people served by the doctor on Wake Island? Are you providing medical service for that many people?

Mr. DEAN. Wake Island is an island entrusted to the Federal Aviation Agency by Executive order and agreement with Department of Interior. It is our responsibility to administer all community services. It is an important stopping point for trans-Pacific aircraft. We are the Government of Wake Island. We have the schools and we have the responsibility for utilities. Among our functions is included the furnishing of all medical support. Virtually everyone there is an employee of the Federal Aviation Agency or a dependent, or an employee of the Department of Defense or a dependent, or is associated with aeronautical activities.

Mr. EVINS. That is good information to spell out on the record.

(The information referred to follows:)

[From the Federal Register, Thursday, Sept. 6, 1962]

FEDERAL AVIATION AGENCY

CIVIL ADMINISTRATION OF WAKE ISLAND

AGREEMENT BETWEEN THE FEDERAL AVIATION AGENCY AND THE UNITED STATES DEPARTMENT OF THE INTERIOR

This Agreement is entered into by and between the United States Department of the Interior (hereinafter referred to as Interior), and the Federal Aviation Agency (hereinafter referred to as FAA).

Whereas it is contemplated that Interior will be vested with executive and legislative authority necessary for the civil administration of Wake Island, and all judicial authority respecting that Island other than that contained in the Act of June 15, 1950, as amended (48 U.S.C. 644(a)), and

Whereas the FAA has primary use, jurisdiction, control, responsibility and interest in the facilities on Wake Island;

Now, therefore, in consideration of the above, Interior and FAA hereby covenant and agree as follows:

(a) *Exercise of authority.* All executive, legislative and judicial authority for the civil administration of Wake Island, now or hereafter vested by law in the Secretary, of the Interior, shall be exercised by such person or persons (which shall include a position or positions) as may be designated by the Administrator of the FAA. This authority shall be exercised in accordance with such directives as may be prescribed by the Secretary of the Interior.

(b) *Rules and regulations.* All authority invested by law in Interior to make necessary rules and regulations for the orderly maintenance and the civil administration of Wake Island shall be exercised by the person or persons designated pursuant to paragraph (a), and in accordance with such directives as may be prescribed by the Secretary of the Interior.

(c) *Reports.* The FAA shall submit annual reports to Interior outlining the rules and regulations adopted pursuant to this Agreement and covering administrative action with respect to such rules and regulations.

(d) *Funding.* The FAA assumes responsibility for the administration of Wake Island and assumes the necessary funding obligations for such purposes. It is further agreed that the administration of and operation on Wake Island shall be without expense to Interior, except that expenses incurred by Interior in discharging functions not delegated pursuant to this Agreement shall be at Interior's expense.

(e) *Facilities.* Since, under the International Aviation Facilities Act, as amended, 49 U.S.C. 1151, et seq., FAA possesses exclusive authority in all matters relating to the installation, consolidation, operation, protection, maintenance, improvement, and administration over all facilities, structures and equipment on Wake Island, which are or may hereafter become the property of FAA, it is hereby agreed that Interior will take no action that may be in derogation of this authority, and no action or directive of Interior will be construed to be in derogation of this authority.

(f) *Support.* Interior will provide such assistance to FAA as may be mutually determined upon in the future.

(g) *Law enforcement.* Interior and FAA shall cooperate to obtain the appointment of persons to such positions as United States Commissioner, and Deputy United States Marshal, and to other positions as may be necessary at Wake Island not within the appointing authority of Interior or FAA.

(h) *Duration.* This Agreement shall become effective upon the vesting of the authority for the civil administration of Wake Island in the Secretary of the Interior, and shall continue in force for five years following such date. This Agreement may be renewed or modified thereafter, as Interior and FAA may mutually agree.

Dated: December 22, 1961.

N. E. HALABY,
Administrator, Federal Aviation Agency.

Dated: February 5, 1962.

STEWART L. UDALL,
Secretary of the Interior.

EXECUTIVE ORDER 11048—ADMINISTRATION OF WAKE ISLAND AND MIDWAY ISLAND

By virtue of the authority vested in me by section 48 of the Hawaii Omnibus Act (approved July 12, 1960; 74 Stat. 424; P.L. 86-624) and section 301 of title 3 of the United States Code, and as President of the United States, it is hereby ordered as follows:

PART 1—WAKE ISLAND

SECTION 101. The Secretary of the Interior shall be responsible for the civil administration of Wake Island and all executive and legislative authority necessary for that administration, and all judicial authority respecting Wake Island other than the authority contained in the act of June 15, 1950 (64 Stat. 217), as amended (48 U.S.C. 644a), shall be vested in the Secretary of the Interior.

SEC. 102. The executive, legislative, and judicial authority provided for in section 101 of this order (1) may be exercised through such agency or agencies of the Department of the Interior, or through such officers or employees under the jurisdiction of the Secretary of the Interior, as the Secretary may direct or authorize, (2) may be exercised through such agency or agencies, other than or not in the Department of the Interior, or through such officers or employees of the United States not under the administrative supervision of the Secretary, for such time and under such conditions as may be agreed upon between the Secretary and such agency, agencies, officers or employees of the United States, and (3) shall be exercised in such manner as the Secretary, or any person or persons acting under the authority of the Secretary, may direct or authorize.

SEC. 103. Executive Order No. 6935 of December 29, 1934, to the extent that it pertains to Wake Island, is hereby superseded.

PART II—MIDWAY ISLAND

SECTION 210. The Secretary of the Navy shall be responsible for the civil administration of Midway Island and all executive and legislative authority necessary for that administration, and all judicial authority respecting Midway Island other than the authority contained in the act of June 15, 1950 (64 Stat. 217), as amended (48 U.S.C. 644a), shall be vested in the Secretary of the Navy.

SEC. 202. The executive, legislative, and judicial authority provided for in section 201 of this order shall be exercised through such agency or agencies of the Navy Department, or through such officers or employees under the jurisdiction of the Secretary of the Navy, as the Secretary may direct or authorize, and shall be exercised in such manner as the Secretary, or any person or persons acting under the authority of the Secretary, may direct or authorize.

SEC. 203. Such public lands on the Midway Islands, Hawaiian group, between the parallels of 28°5′ and 28°25′ North latitude, and between the meridians of 177°10′ and 177°30′ West longitude, as were placed under the jurisdiction and control of the Navy Department by the provisions of Executive Order No. 199-A of January 20, 1903, are hereby continued under the jurisdiction and control of that Department. Executive Order No. 199-A is hereby superseded.

PART III—MISCELLANEOUS PROVISIONS

SECTION 301. The provisions of each of the foregoing Parts of this order shall continue in force until the Congress shall provide for the civil administration of the affected Island or until such earlier time as the President may specify.

SEC. 302. As used herein, the terms "Wake Island" and "Midway Island" include the reefs appurtenant to, and the territorial waters of, Wake Island and Midway Island, respectively.

SEC. 303. To the extent that any prior Executive order or proclamation is inconsistent with the provision of this order, this order shall control.

SEC. 304. This order shall not be deemed to affect Executive Order No. 9709 of March 29, 1946, or Executive Order No. 9797 of November 6, 1946.

SEC. 305. Nothing in this order shall be deemed to reduce, limit, or otherwise modify the authority or responsibility of the Attorney General to represent the legal interests of the United States in civil or criminal cases arising under the provisions of the act of June 15, 1950.

JOHN F. KENNEDY

THE WHITE HOUSE,
September 4, 1963.

Mr. OSTERTAG. Are there military personnel at Wake?

Mr. DEAN. Yes, they are associated with MATS and there are some ballistic missile range personnel.

Mr. HALABY. It is almost endless, Mr. Jonas, the number of things that you all placed upon this Agency. I never dreamed 3 years ago we would be in charge of an island and its government and medical services.

Mr. EVINS. An Executive order did that, and not this committee.

Mr. HALABY. I should not have attributed it to this committee. I meant the things loaded onto the FAA. This is one of the more difficult ones. I think Dr. White's point is that because the Federal Government holds us responsible for supporting that island, here is one doctor with all these people and that is within this limitation.

Mr. JONAS. What is the ratio in the United States of doctors to population?

Dr. WHITE. Approximately 1 to 750.

Mr. JONAS. That is countrywide?

Dr. WHITE. This physician at Wake requires technical support—he needs technical support of a secretary and a lab assistant. Perhaps a dentist would be better. At the present time the large number of children there have to be returned to Hawaii for dental treatment.

Mr. EVINS. All your other objects are up, Doctor. Try to hold them down. Last night at the signing of the tax bill the President stated they were going to submit to the Congress an estimated reduction of 7,500 jobs. This is the direction in which we are trying to move, in reducing and practicing economy.

RESEARCH ON TIME ZONE EFFECTS

Mr. OSTERTAG. I have some questions that I would like to submit to the Administrator concerning research on time zone effects that I would like to have answered at this point in the record.

(The questions and answers follow:)

The following paragraph appeared in the November 1963 issue of Fortune magazine:

"Serious investigation of the time zone effect has really just begun. The Federal Aviation Agency has recently undertaken a study that will involve flying half a dozen volunteer scientists from FAA's medical research base at Oklahoma City to Tokyo and return, and later from Oklahoma City to Frankfurt and return. Before, during, and after the flights the volunteers will be given psychological and physiological tests so that FAA can find out, first, the magnitude of the problem, and, second, the range of variation in the tests. Later, under FAA's Dr. George Hauty, more elaborate experiments will be carried out. One such, to be made with a University of Minnesota group, will try to find out if there is any way to schedule flight departure times so that the disruption of circadian rhythms can be kept at a minimum."

Could you furnish the committee with the details of the total program? What will it cost? Are the results to be achieved commensurate with expenditures? If this must be done couldn't the same objective be accomplished by checking airline crews on normal flights? Wouldn't that be much more realistic and practical?

INFORMATION ON FAA BIOMEDICAL RESEARCH ON EFFECTS OF INTERCONTINENTAL FLIGHT

1. Could you furnish the committee with the details of the total program?

(*a*) Background to problem: High-speed jet travel exposes aircrew and passengers to rapid changes in time zones. Man, as well as many other forms of life, maintains a time-oriented equilibrium with his environment. When man is suddenly placed in an environment with a day-night cycle significantly different from that to which he has become accustomed, he suffers a disruption of numerous important functions. The degree to which measurable functions are affected and the rate at which they adjust to the new time sequence is known to be different for various functions. The extent to which the performance of humans is impaired by these effects, and the duration of impairment, are not clearly known.

(*b*) Objective: The purpose of FAA studies in this area is to determine (1) the effect of time zone change on human proficiency and reliability and (2) the length of the period required to regain the former, or an adequate, level of functioning and proficiency.

(*c*) Method: 1. Numerous physiological, biochemical, and performance measurements will be made on six research subjects for 72 consecutive hours on three occasions at 60-day intervals, prior to the change in time zones.

2. Subjects will be transported by jet aircraft across six or more time zones. Selected physiological, biochemical, and performance measurements will be carried out in flight.

3. Comparative measurements will be continued for a period of 2 to 4 weeks at destination, until stability of the various functions has occurred.

4. Subjects will be returned to point of origin with inflight and postflight measurement as before.

5. A second trip, in a direction opposite to the first, will be made with the same subjects and under the same conditions as for the first trip. The same preflight, inflight, and postflight measurements will be made.

IV. If this must be done, couldn't the same objective be accomplished?

6. The study, now in process, is being conducted jointly by researchers at the FAA Civil Aeromedical Research Institute and researchers of the University of Minnesota.

7. Research subjects are selected from the researchers of the two institutions conducting this study.

II. What will it cost?

1. To cover equipment, data processing, and per diem for research subjects	$12,500
2. To cover transportation expenses for subject and equipment	16,000
3. To cover the cost of a contract with University of Minnesota for the preliminary study and a portion of the ongoing study	8,600
Total	37,100

III. Are the results to be achieved commensurate with expenditures?

Yes. The necessity for and the value of such studies, in terms of safe performance of aircrew personnel and the well-being of passengers, has been confirmed by airline medical directors, the Air Line Pilots Association, and other knowledgeable medical scientists. By making use of the extensive background of knowledge and experience in this field possessed by Dr. Hauty of the Civil Aeromedical Research Institute and Dr. Halberg of the University of Minnesota, the study has been precisely tailored to obtain the desired result at very nominal cost.

IV. If this must be done, couldn't the same objective be accomplished checking airline crews on normal flights? Wouldn't that be much more realistic or practical?

No. The protracted preflight and postflight testing period and the nature of inflight tests to be performed would be impossible without major disruption in crew scheduling and performance of normal inflight duties. It should be

pointed out that a team of researchers is required to perform the measurements involved and would require transportation and per diem in either case. By the present plan the researchers themselves serve as the subjects.

Research Direction

Mr. Evins. Mr. Reporter, insert pages 257, 258, and the table on the top of 259. This has already been discussed.

(The material referred to follows:)

Research Direction

Requirements

	1964 approparition		1965 estimate		Difference	
	Positions	Amount	Positions	Amount	Positions	Amount
Direction and administration	372	$4,446,000	306	$3,940,000	−66	−$506,000
Staff and supporting services	539	6,353,000	484	6,247,000	−55	−106,000
Total	911	10,799,000	790	10,187,000	−121	−612,000

Research Direction

GENERAL JUSTIFICATION

The research direction activity provides for direction of the Federal Aviation Agency's research and development program (excluding that relating to aviation medical).

There are two subactivities under this activity: Direction and administration and staff and supporting services.

Direction and administration provides for the personal services and supporting costs associated with the planning, directing, monitoring, and coordinating of the research, development, experimentation, evaluation, and applications engineering effort.

Staff and supporting services include base operations and maintenance of the National Aviation Facilities Experimental Center at Atlantic City, N.J., as well as a proportional share of staff and supporting services relating to the major operating programs of the Agency.

The 1965 program for this activity will reflect a significant reduction in both staffing and funding when compared with the 1964 program. These reductions have been accomplished both in Washington and at the National Aviation Facilities Experimental Center (NAFEC).

The fiscal year 1965 funding requirements to provide for the direction of the Agency research program are summarized as follows:

	1964	1965	Difference
Positions	911	790	−121
Amount	$10,799,000	$10,187,000	−$612,000

In fiscal year 1965 staffing for the direct program for research direction will be reduced by 66 positions and $506,000. Likewise, staff and supporting positions will be reduced by 55 and funding by $106,000. These savings are the result of management decisions to reduce staffing in this area at both Washington and NAFEC.

Changes in the 1965 program are summarized in the following table and discussed in detail on the following pages.

	Positions	Amount
Direct costs:		
New programs		$13,000
Phase II pay increases		75,000
Other pay adjustments		15,000
Other cost adjustments	−66	−609,000
Staff and supporting services	−55	−106,000
Total	−121	−612,000

STAFF AND SUPPORTING SERVICES

Mr. EVINS. For "Staff and supporting services," you have in 1964 539 positions. For 1965, 484 positions, 55 less. You have a reduction in funding of $106,000.

Insert page 262, Mr. Reporter.

(The page follows:)

Staff and supporting services

	1964 appropriation	1965 estimate	Difference
Permanent positions	539	484	−55
Amount	$6,353,000	$6,247,000	−$106,000

Included under this heading are two categories of cost. First, it includes the personnel and associated overhead costs for maintaining the National Aviation Facilities Experimental Center and indirect support for research and development programs.

Funds are provided for necessary travel of the staff of the National Aviation Facilities Experimental Center. Costs for transportation provides for the movement of household goods for new employees recruited from outside the Atlantic City, N.J., area, and for the transportation of materials required for projects at the test facility. All communication services, rents and utilities, supplies and materials, and equipment not directly associated with research and development projects at the test facility are funded here. In addition, funds are provided for building repair and rehabilitation; erosion control; and repair and maintenance of roads, runways, and taxiways. Funding is also provided for the management and operation of a library and information retrieval service. The responsibility for managing the airport is assigned to this function.

Support activities, such as garbage collection; custodial and janitorial service; the operation of the water and sewage plant, the heating and steam plant; and the cafeteria are performed by contract.

Secondly, this program reflects the proration to this activity of the consolidated costs and staffing of those Agency functions dealing with the direction and control of programs and policies; coordination of international civil aviation programs; legal services; management improvement; budgeting; financial reporting; accounting for funds; payrolling of employees; personnel activities; security; and other services of a general housekeeping nature, including mail distribution, printing and duplicating. In addition this item provides for headquarters space costs, administrative supplies, communications and telephone expenses at regional and Washington headquarters operations.

The programs categorized under this activity are wholly financed under the "Operations" appropriation. The basic services performed by the various program units extend to all Agency operations including those programs funded under "Operations" as well as the appropriations for "Facilities and equipment," "Grants-in-aid for airports," and "Research and development." Further detail of these functions may be found under "Staff and supporting services" of the traffic management activity.

Mr. OSTERTAG. Is this under "Research and development"?

Mr. BLATT. This heading, "Research Direction," is under the "Operations" appropriation and under this heading we administer and monitor the research and development activities.

This is the Systems Research and Development Service's and the Aircraft Development Service's management and supervision budget.

I think that you are referring to the specific program areas under the research and development appropriation.

GENERAL AVIATION ACCIDENTS

Mr. HALABY. Something Mr. Jonas read yesterday which one of his constituents sent him set me to thinking hard last night about whether we have made any progress with respect to general aviation safety in the last several years and I got some data that I think both Mr. Jonas and his constituent would be interested in. If I could just read it into the record, it will take me just 1 second.

In the year 1946 there were 7,618 general aviation accidents. In the year 1964, there were 5,050, a decrease of approximately a third.

In fatal accidents in the year 1946 there were 690 and there were last year 477.

In the number of fatalities in 1946 there were 1,009, and last year there were 898.

In hours flown, 9.8 million in 1946 and about 14 million in 1963.

The accident rate per hundred thousand hours flown dropped from 77.73 to 37.38—the rate dropped to less than half.

The fatal accident rate, which I believe the author of the paper which was sent to you, Mr. Jonas, stated had remained stable, descended from 7 fatal accidents per hundred thousand hours flown in 1946 to about 3½ for 1963.

The number of midair collisions in 1947, which is the last date I have, was 50 and last year it was 15.

Now you quoted this article as saying that the rate had leveled off, even though the FAA was still building up. I think that part of the argument is valid.

It appears at the present time that for the last 3 years the fatal accident rate per hundred thousand hours flown has varied between 3.38—3.1, which was 1962, the best year on record, back up to 3½. It is in that category. It seems to be at a kind of plateau. My only point is that is less than half the rate of 1946, so some progress has been made. I do not say it is the FAA, it is the whole aviation effort.

Mr. JONAS. It might be but in order to have your statistics mean

anything, you would have to show a curve. Most of this reduction may have occurred before your buildup so we need to have that material per year.

Mr. HALABY. I agree with you, but just reading that article, you would think that no progress had been made at all.

Mr. JONAS. I did not gather that when he said it had leveled off and there was no appreciable decline since 1957.

I wonder how much trouble it would be to prepare a table year by year showing the variation.

Mr. HALABY. We will have a try at it, Mr. Jonas.

(The table supplied follows:)

Accidents, rates, general aviation, 1946–63

Calendar year	Hours flown [1]	Total accidents	Rate	Fatal accidents	Rate	Total fatalities	Rate
1946	9,788	7,618	77.8	690	7.0	1,009	10.3
1947	16,334	9,253	56.6	882	5.3	1,352	8.3
1948	15,130	7,850	51.8	850	5.6	1,384	9.1
1949	11,031	5,459	49.4	562	5.0	896	8.1
1950	9,650	4,505	46.6	499	5.1	871	9.0
1951	8,451	3,824	45.2	441	5.2	750	8.9
1952	8,186	3,657	44.6	401	4.8	691	8.4
1953	8,527	3,232	37.9	387	4.5	635	7.4
1954	8,963	3,381	37.7	393	4.3	684	7.6
1955	9,500	3,343	35.1	384	4.0	619	6.5
1956	10,200	3,474	34.0	356	3.4	669	6.6
1957	10,938	4,200	38.4	438	4.0	800	7.3
1958	11,700	4,584	39.2	384	3.2	717	6.1
1959	12,000	4,576	38.1	450	3.7	823	6.9
1960	12,203	4,793	39.2	429	3.5	787	6.4
1961	12,650	4,625	36.5	426	3.3	761	6.3
1962	13,450	4,650	36.0	430	3.2	857	6.4
1963	[2] 14,000	5,050	36.1	477	3.4	898	6.4

[1] Source: FAA. Rates per 100,000 flying hours.
[2] Estimated.

NOTE.—1946–62 CAB data; 1963 (preliminary) FAA data.

Mr. HALABY. I am just making the point that over the last 15 or 20 years real progress has been made but in the last 2 or 3 years we have reached a kind of plateau and I think we ought to be encouraged that that plateau is much, much better, at least twice as good as it was in the distant past.

Mr. OSTERTAG. Don't you have such a record year by year?

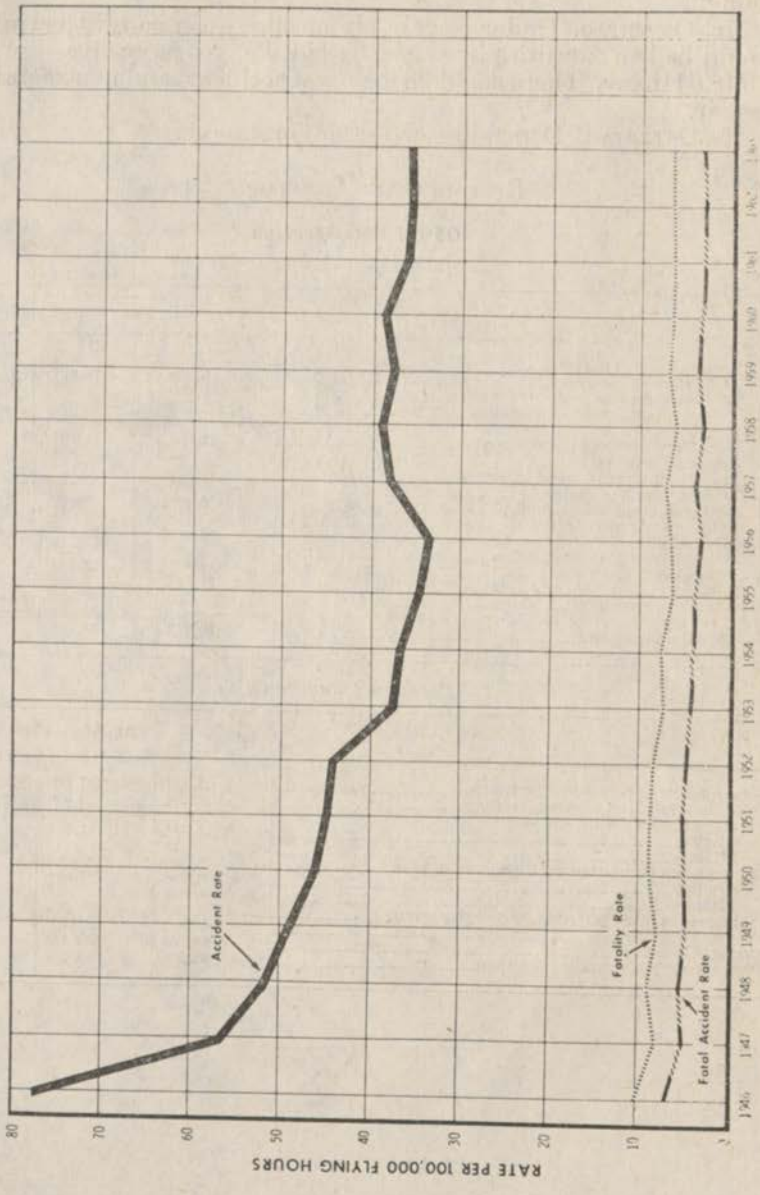
Mr. HALABY. Yes, sir.

Mr. OSTERTAG. Why wouldn't it be appropriate to use that at this point in the record?

Mr. HALABY. We will try to put a chart in.

(The chart supplied follows:)

GENERAL AVIATION ACCIDENT RATES



Mr. HALABY. I am not denying that there is a plateau and there is no direct relationship between the buildup of the FAA budget in personnel and the number of accidents. I am saying there has been real progress in general aviation safety but it isn't anywhere near good enough.

Mr. OSTERTAG. Under certain circumstances in certain years there would be less fatalities by way of accidents, yet more lives lost.

Mr. HALABY. There could be less fatal accidents and more fatalities; yes, sir.

Mr. OSTERTAG. Depending on the circumstances.

RESEARCH AND DEVELOPMENT

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	9,899	10,507	10,521
	Positions other than permanent	1,099	1,187	1,216
	Other personnel compensation	270	300	254
	Total personnel compensation	11,268	11,994	11,991
12	Personnel benefits	816	898	835
21	Travel and transportation of persons	568	628	563
22	Transportation of things	150	111	86
23	Rent, communications, and utilities	2,298	2,829	1,824
24	Printing and reproduction	38	46	47
25	Other services	26,829	22,767	23,556
	Services of other agencies	14	21	11
26	Supplies and materials	4,644	1,548	2,181
31	Equipment	11,988	2,204	1,906
32	Lands and structures	500		
	Total obligations	59,113	43,046	43,000

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	1,107	1,279	1,089
Full-time equivalent of other positions	294	266	274
Average number of all employees:			
Civilian	1,357	1,334	1,296
Military	18	19	18
Employees in permanent positions, end of year:			
Civilian	1,068	1,048	1,057
Military	12	19	18
Employees in other positions, end of year, civilian	283	221	221
Average GS grade	10.7	11.0	10.9
Average GS salary	$9,563	$10,170	$10,320
Average salary of ungraded positions	$6,366	$6,251	$6,405

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Air traffic control	27,856	23,605	24,905
2. Navigation	15,530	9,016	7,500
3. Aviation weather	4,333	1,385	1,470
4. Aircraft safety	6,931	5,600	4,995
5. Airports	2,472	1,600	2,280
6. Aviation medicine	1,991	1,840	1,850
Total obligations	59,113	43,046	43,000
Financing:			
Unobligated balance brought forward	−28,159	−4,046	−1,000
Unobligated balance carried forward	4,046	1,000	
New obligational authority (appropriation)	35,000	40,000	42,000

Mr. EVINS. We will turn to "Research and Development." We are on research direction, now. I thought we would also include at the same time research and development in a later tab. I want to put the two together. Let's have research direction and research development all at one time.

(The material referred to follows:)

Summary of appropriation requirements

Appropriation 1964 (regular bill) $40,000,000
Net difference—1965 over 1964:

Activity	Requirements		Difference, increase (+) or decrease (−)	
	1964 appropriation	1965 estimate		
Air traffic control	$23,268,000	$23,905,000	$637,000	
Navigation	8,320,000	7,500,000	−820,000	
Aviation weather	1,193,000	1,470,000	+277,000	
Aircraft safety	3,909,000	4,995,000	+1,086,000	
Airports	1,470,000	2,280,000	+810,000	
Aviation medicine	1,840,000	1,850,000	+10,000	
Total	40,000,000	42,000,000	+2,000,000	+2,000,000
Total estimate of appropriation, 1965				42,000,000

RESEARCH AND DEVELOPMENT

GENERAL STATEMENT

The research and development program is conducted under the activities of (1) air traffic control, (2) navigation, (3) aviation weather, (4) aircraft safety, (5) airports, and (6) aviation medicine. The objectives are modernization of the national aviation system through improvements in facilities, equipment, techniques, and procedures, and increased safety in civil aviation through improvements in aircraft, aircraft engines and airborne equipment. A sound, integrated program of research, development, experimentation and evaluation is vital to safety and the efficient use of the Nation's airways.

The technical program for fiscal year 1965 continues to emphasize the expeditious development and implementation of the national airspace system, an automated air traffic control system which will comprise numerous subsystems now under development in the fields of air traffic control, navigation, aviation weather and airports. Development of an all-weather landing system, and development and evaluation of devices to enhance the safety of aircraft within the system also will continue to be emphasized.

A second type of effort included in the technical program is inservice improvements aimed at continual modernization of the equipment and procedures currently being used in the common system. Inservice improvement projects are initiated at the request of the operating units of the Agency and are concerned with specific problems encountered in the field.

A third type of effort included in the technical program is long-range research, directed toward system improvement in the post-1975 period. Long-range research projects for fiscal year 1965 include studies of airport design problems, future navigation systems and traffic and economic analyses of future system requirements.

The 1965 program also provides for continuing an aeromedical research effort directed toward the identification and elimination of those physical, physiological, and psychological factors which may jeopardize safety in flight.

Summary of requirements by activity

	1965 request
1. Air traffic control:	
a. Air traffic control operations	$1,000,000
b. Data display	8,080,000
c. Data processing	10,075,000
d. Data acquisition	2,770,000
e. Data transfer and communications	1,980,000
Total	23,905,000
2. Navigation:	
a. Approach and landing	4,525,000
b. Short-distance navigation	1,390,000
c. Long-distance navigation	410,000
d. Flight inspection	1,175,000
Total	7,500,000
3. Aviation weather:	
a. Weather data handling	30,000
b. Weather data presentation	1,275,000
c. Weather applications to air traffic management and research program	165,000
Total	1,470,000
4. Aircraft safety:	
a. Airframe	1,092,000
b. Propulsion	885,000
c. Noise suppression	710,000
d. Equipment	350,000
e. Flight	742,000
f. General aviation cockpit display	716,000
g. Subsonic aircraft development	500,000
Total	4,995,000
5. Airports:	
a. Airport design	480,000
b. Airport visual aids	1,800,000
Total	2,280,000

Summary of requirements by activity

6. Aviation medicine:	
a. Air traffic controllers and aircrew members: Physiological stress, fatigue, and aging factors relating to proficiency	$490,000
b. Air traffic controllers and aircrew members: Psychological stress, fatigue, and aging factors relating to proficiency	140,000
c. Air traffic controllers: Proficiency, selection factors, and optimum characteristics of air traffic working environment	135,000
d. Civil aviation: Passenger and crew emergency procedures, oxygen equipment, and safety measures	200,000
e. Civil aviation personnel: Drug effects on performance and safety of aircrew and ground support personnel	100,000
f. Aerial applicators: Effects of toxic chemicals upon health and safety	90,000
g. Injury prevention in light- and heavy-aircraft accidents	244,000
h. Civil aviation generated biological stresses in the general population	21,000
i. Physiologic age rating for pilot certification eligibility	236,000
j. Prognostic studies of diseased states influencing flying safety	194,000
Total	1,850,000
Total research and development	42,000,000

Total agency research and development program—Fiscal years 1964 and 1965

[In thousands of dollars]

	1964 appropriation			1965 estimate		
	Contracts	Other costs	Total	Contracts	Other costs	Total
Research and development:						
Air traffic control	10,648	12,620	23,268	9,645	14,260	23,905
Navigation	2,854	5,466	8,320	4,970	2,530	7,500
Aviation weather	208	985	1,193	530	940	1,470
Aircraft safety	2,865	1,044	3,909	3,995	1,000	4,995
Airports	640	830	1,470	1,080	1,200	2,280
Aviation medicine	----------	1,840	1,840	----------	1,850	1,850
Total, new obligational authority	17,215	22,785	40,000	20,220	21,780	42,000
Facilities and equipment:						
Buildings, construction, and improvements	5,943	----------	5,943	6,780	----------	6,780
Test and evaluation facilities	5,821	----------	5,821	720	----------	720
Aircraft and related equipment	380	----------	380	----------	----------	----------
Total, new obligational authority	12,144	----------	12,144	7,500	----------	7,500
Operations:						
Direction and administration:						
Research and development	----------	4,446	4,446	----------	3,940	3,940
Aviation medicine	----------	994	994	----------	980	980
Staff and supporting services:						
NAFEC	----------	4,855	4,855	----------	4,671	4,671
Agency	----------	1,498	1,498	----------	1,576	1,576
Total, new obligational authority	----------	11,793	11,793	----------	11,167	11,167
Total, research and development program, new obligational authority	29,359	34,578	63,937	27,720	32,947	60,667

Mr. EVINS. Mr. Blatt, you are in charge of research and direction and on page 258 it shows you need $10,187,000 for research direction. Then you get over to research and development where you want $42 million. Tell us about your problems and why you have to have all this money. Why is it needed? Why is it necessary? Justify it to the committee.

SURVEY OF FEDERAL AIRWAYS SYSTEM

Mr. BLATT. Mr. Chairman, as we have previously testified, back in 1961, the President appointed a committee to investigate and make a detailed survey of the air-traffic control and navigation system. This survey disclosed some specific system deficiencies. This very, very competent task force came to the conclusion that the attainment of both safety and efficiency was an extremely difficult task to accomplish. They concluded that the system-in-being was inefficient in the utilization of the airspace itself, and that in fact we were procuring safety at the expense of efficiency. We were buying safety with delays.

They made very specific recommendations for correcting these deficiencies and if I might add, in fact outlined a complete guide for research and development programs.

Mr. EVINS. When was this report made?

Mr. BLATT. I believe this report was made in October or November 1961.

Mr. EVINS. You have been living under that ever since?

Mr. BLATT. Yes, sir; and I think this, as the Administrator has indicated, is a most unique accomplishment in that since the publication we have had consistent and continuous management of the research and development program. We have kept our sights fixed at a well-defined goal and we are attempting to accomplish the goal. I feel quite proud to say that we are well along the way toward accomplishment.

RESEARCH DIRECTION

Mr. EVINS. You indicate on research direction your staffing will be reduced and that you are having some consolidations and less funding in research direction.

Mr. BLATT. Yes, sir. Research and development is always in the vanguard and therefore I feel we are leading in economy and efficiency in operations. We are able to accomplish this reduction in personnel and money through detailed management studies of the operations of our organization. We have realined our scientific and technical personnel by organizing them in program areas, such as air traffic control, navigation, communications, weather, et cetera, rather than organizing them along traditional research and development lines——

Mr. EVINS. You feel you fully need $10,187,000 for 790 people to direct your research program?

Mr. BLATT. Yes, sir; we feel this is a very, very minimum program, but adequate.

Mr. HALABY. We took off 18 percent in personnel and 11 percent in dollars between 1964 and 1965.

Mr. EVINS. Place pages 258, 259, and 260 in the record, Mr. Reporter.

(The pages follow:)

RESEARCH DIRECTION

GENERAL JUSTIFICATION

The Research direction activity provides for direcion of the Federal Aviation Agency's research and development program (excluding that relating to Aviation Medical).

There are two subactivities under this activity: Direction and Administration and Staff and Supporting Services.

Direction and Administration provides for the personnel services and supporting costs associated with the planning, directing, monitoring, and coordinating of the research, development, experimentation, evaluation, and applications engineering effort.

Staff and Supporting Services include base operations and maintenance of the National Aviation Facilities Experimental Center at Atlantic City, N.J., as well as a proportional share of staff and supporting services relating to the major operating programs of the Agency.

The 1965 program for this activity will reflect a significant reduction in both staffing and funding when compared with the 1964 program. These reductions have been accomplished both in Washington and at the National Aviation Facilities Experimental Center (NAFEC).

The fiscal year 1965 funding requirements to provide for the direction of the Agency research program are summarized as follows:

	1964	1965	Difference
Positions	911	790	−121
Amount	$10,799,000	$10,187,000	−$612,000

In fiscal year 1965 staffing for the direct program for research direction will be reduced by 66 positions and $506,000. Likewise, staff and supporting positions will be reduced by 55 and funding by $106,000. These savings are the result of management decisions to reduce staffing in this area at both Washington and NAFEC.

Changes in the 1965 program are summarized in the following table and discussed in detail on the following pages.

	Positions	Amount
Direct costs:		
New programs		$13,000
Phase II pay increases		75,000
Other pay adjustments		15,000
Other cost adjustments		−609,000
Staff and Supporting Services	−66	−106,000
	−55	
Total	−121	−612,000

New programs, +$13,000

Included in this category is $13,000 associated with transportation costs related to oversea personnel rotation, and with the procurement of a small amount of new equipment.

Phase II pay increases, +$75,000

This category of cost represents the amount required to meet the cost of that portion of the pay increases authorized by Public Law 87–793 and becoming effective in January 1964. The estimate is based on employment in general schedule grades as of January 1, 1964, and was computed on a grade-by-grade basis to give proper weight to the different amount of increase for each grade level. The amount included in this estimate represents the difference between the total yearly value of the increase and the amount which was payable in 1964. On the average, this estimate is 51.5 percent of the total yearly costs.

Other pay adjustments, +$15,000

During the fiscal year 1965 $15,000 will be required to finance within-grade salary increases and additional salary costs of personnel who will be qualified for and promoted to higher grade levels than positions occupied during 1964. This estimate reflects the net cost after adjusting for savings in within-grade costs due to turnover. This estimate is based on present grade levels of employees in this activity and the length of time they have been in present grade levels.

Other cost adjustments, —$609,000

This reduction of $609,000 is chiefly the result of a reduction in the direct funded program of 50 positions in Washington and 16 in NAFEC.

Staff and supporting services, —$106,000

The decrease in this function is chiefly the result of a decrease in staffing in the staff and supporting area at NAFEC. This decrease has been partially offset by added costs resulting chiefly from salary increases as well as new plant maintenance requirements at NAFEC.

Mr. HALABY. Mr. Shank and Mr. Blatt are entitled to quite a bit of credit for this reduction in overhead.

Mr. EVINS. On your research program you are up $2 million. We discussed that somewhat yesterday. Air traffic control increase about $637,000. Aviation weather increases about $277,000. Aircraft safety increases by $1,086,000. Airports, whatever that means, $810,000, and aviation medicine is increased by $10,000. You have aviation medicine over in research.

Mr. BLATT. Yes, sir. That is the actual research and development program of the Office of Aviation Medicine.

Mr. OSTERTAG. Mr. Blatt, many of your projects that you have undertaken under the R. & D. program are, of course, directed toward improvements which if successful will be primarily beneficial to a particular segment of the aviation industry. For example, your project "Little Guy," and general aviation.

EVALUATION OF PROPOSED RESEARCH AND DEVELOPMENT PROJECTS

Would you identify each of these projects and inform the committee whether or not these particular projects and this program is coordinated or endorsed or supported by the industry and aviation interests generally? Have you any conflict there?

Mr. BLATT. I don't believe that there is any conflict, in the basic sense of the word. I gather you are asking the question, Are we doing things that people don't want being done?

Mr. OSTERTAG. Well, no, not exactly, but go ahead.

Mr. BLATT. I don't think there is any conflict.

I would like to tell you that when we go through the process of evaluating proposals that come into our organization—and you recognize that a research and development organization is the recipient of many, many proposals solicited and unsolicited—when we evaluate proposals, we form evaluation teams and these evaluation teams consist not only of members of the research and development organizations, not only of members of other services of the Federal Aviation Agency, but include on the team itself, when appropriate, members of the military organizations and members of industry. That is, representatives of both the air carrier industry and general aviation are on these teams. And in this way we do get an input with respect to the requirements of the ultimate users of the services we are trying to develop.

Mr. HALABY. I don't think all segments of aviation agree with all of our projects. As you know, this is a very competitive, individualistic aviation world we live in, and thank God for it. Each association and group has a particular interest. What is good for the airline pilots isn't always what the airline flight engineers want. What is good for the private plane owner may be disagreeable to the air taxi operator. We have several controversial projects and in that sense, some people in the aviation community disagree with this or that project. For example, one of the best projects that we showed you the results of, the small altitude and identification transmitting beacon, has been a great success in that it will enable us to go on with the program to give the controller identification and altitude as we showed you on the simulated scope yesterday. But there are people who say we shouldn't be doing that, because all this means is another piece of equipment they will force us to buy at great expense and put in our airplanes. So that segment disagrees with our having this project. They don't want us to develop a piece of equipment that will transmit to the controller if they have to buy it and put it in the airplane.

Now, the military are insistent on that, because they all have beacons and they want other aircraft in the air to be identifiable. The airlines are very much for that project because they want every aircraft in the air to have the beacon. So we find as with almost all aspects of the Agency, some one or more groups disagree over some one or more projects.

We have another project to proceed with a kind of design contest to see what the U.S. manufacturer can design for local service transport service to take over when the DC–3's phase out of the picture. Some say that we shouldn't be in it at all, that the Federal Government should leave this to the manufacturer and the airline. The Federal Government has left it to them. They haven't produced. They are in space, rather than on the bus stops. So we have a limited design concept.

Other say, "You ought to buy this airplane for $20 million and then give it to the local service carriers."

Again, we have conflict from the different points of view.

We have a relatively small project for a cockpit that would reduce the number of these weather flying accidents from 5,000, killing 900 people last year, most of them around airports or in weather, and if this could be proved out, like this altitude transmitting beacon, we think it would be simpler and safer to fly. But some of the people who would rather just sell airplanes in volume are not happy about our conducting an investigation into a prototype cockpit. They also fear we might federally standardize it, which we haven't in mind in the slightest, but the research work can be very helpful in safety, we think.

Mr. OSTERTAG. I was getting at all segments of aviation. They have a definite interest and relationship to this thing. After all is said and done, what you are doing in research is going to lend itself toward greater safety, so how can anyone quarrel with it?

After all, they have just as much at stake as you have, if not more. But the point is that many of these things have cropped up without regard to unified support and I wondered about the reasoning for this conflict or differentiation of position with regard to things our people are doing in this field.

Mr. HALABY. I think the point you make and the one Mr. Jonas made yesterday is that everyone has a stake in surviving. He has an instinct for self-survival. He is interested in safety. The difficulty is that there are competing and conflicting ways of achieving safety. For example, you could have a three dimensional radar every hundred miles, all the way across the airways of the United States and put all the cost of separating aircraft on the taxpayer for this ground installation. Or you could build a small transponder to go in a small aircraft and put the cost in the cockpit and on the owner of the plane, rather than the taxpayer. Naturally, the airplane man would rather not buy anything and get safety through Federal equipment and expenditure. The FAA man, the Government man says, "We can't afford to put 3-D radars at every intersection," and say you have this kind of conflict; not over whether there should be safety, but how we achieve it.

Mr. EVINS. They are pleased to have you do the research, as long as you don't require the manufacturers to put something on this aircraft?

Mr. HALABY. I think that hits it right on the nose.

Mr. EVINS. In the aviation industry I suppose there are some who oppose safety features. We have State laws requiring safety belts be put in cars. Some people want it and some people don't want them, at all.

Mr. SHANK. There was a time when they opposed dual tail lights.

RESEARCH OVERHEAD

Mr. JONAS. Mr. Halaby, I don't believe you want to leave this record as it is, because persons who are unfamiliar with the program will get the impression that you are asking to spend $10 million to conduct a $40 million research program, and that is 25 percent for overhead. Now, my recommendation would be that you or Mr. Blatt try to justify such a tremendous cost of overhead.

Mr. BLATT. I would appreciate the opportunity, Mr. Jonas. The $10 million for "Research Direction," you will note, is divided into two parts. One part is titled "Direction and Administration," which amounts to $3,940,000, and the second part, "Staff and Supporting Services," for $6,247,000.

Under the "Staff and Supporting Services" portion of the "Research Direction" heading, we maintain and operate the plant and facilities for NAFEC, our National Aviation Facilities Experimental Center, which is located at Atlantic City, N.J. Here we maintain and operate

in fact a complex municipal airport and the total operation and maintenance of that facility is included in the "Research Direction" heading.

Mr. OSTERTAG. Your point, as I understand it, is that direction is not entirely the proper definition, because to a certain extent it is operation?

Mr. BLATT. Yes, sir. This is our "Base-operations" appropriation, as well as our "Administration and direction" appropriation.

Mr. JONAS. Where do your receipts show up?

Mr. BLATT. The receipts that we receive, the landing fees that we receive?

Mr. JONAS. Yes.

Mr. BLATT. I have a record of them, sir.

Mr. JONAS. Do they go straight to the Treasury?

Mr. BLATT. They go straight to the Treasury.

Mr. JONAS. You better let us have the amount. It would somewhat offset that $10 million.

Mr. BLATT. It isn't very great, sir. I have the amount.

NATIONAL AVIATION FACILITIES EXPERIMENTAL CENTER

Mr. HALABY. While he is getting that, Mr. Jonas, the true direction and administration costs for the $42 million program are $3.9 million or about 9 percent, rather than the 25 percent, and we appreciate your enabling us to clarify the record. The $6,247,000 is for this whole experimental laboratory and center. It happens to double as an airport through which people fly into the Atlantic City area. There are charter flights, there are business flights, and I believe there is one airline—Allegheny—serving that region. The rest—the receipts from the landing fees for commercial airliners are quite small and of course they get only the benefit of using the runway and taxiway. They have built their own terminal, there, a municipal terminal. This is an old naval base and there are some 6,000 acres involved and there are over a thousand people at work there.

Mr. OSTERTAG. I visited your facility at Atlantic City.

TOTAL RESEARCH AND DEVELOPMENT PROGRAM

It strikes me that there is a relationship between your justification under "Research Direction" and that under "Research and Development." There is a question of whether it should all go in here or go under research. In any event, it is a part of the combination as between "Research Direction" and "Research and Development," is that correct?

Mr. HALABY. If you look at page 246, Mr. Chairman, you see the consolidated total of everything. "Facilities and Equipment," "Research and Development," and "Operations."

Mr. EVINS. Place 264 in the record, Mr. Reporter.

(The page follows:)

Research and development program [1] *(New obligational authority)*

	1964 appropriation		1965 estimate	
	Positions	Amount	Positions	Amount
Operations appropriation:				
Direction and administration	372	$4,446,000	306	$3,940,000
Staff and supporting services:				
NAFEC	424	4,855,000	372	4,671,000
Agency	115	1,498,000	112	1,576,000
Total	911	10,799,000	790	10,187,000
Research and development appropriation:				
Air traffic control		23,268,000		23,905,000
Navigation		8,320,000		7,500,000
Aviation weather		1,193,000		1,470,000
Aircraft safety		3,909,000		4,995,000
Airports		1,470,000		2,280,000
Total	1,179	38,160,000	989	40,150,000
Facilities and equipment appropriation:				
Research, test, and evaluation facilities:				
Buildings, construction, and improvements		5,943,000		6,780,000
Equipment		4,081,000		720,000
First article equipment		1,740,000		
Total		11,764,000		7,500,000
Total research and development program	2,090	60,723,000	1,779	57,837,000

[1] Does not include aviation medicine research and development program.

Mr. HALABY. I agree with you, Mr. Ostertag, it is a bookkeeping problem, because I think the basic point is the overhead cost; the leadership and direction are still $3.8 million for a total R. & D. budget of $42 million, and a consolidated agencywide research and development program of $57,837,000.

TYPES AND NUMBER OF POSITIONS

Mr. JONAS. Have you any green sheets showing the personnel in research direction? I would like to know what proportion of your 306 people are technical, supervisory, and what proportion you would say, or the number you would say, are directly concerned with what I would call housekeeping.

Mr. HALABY. We could ask you, sir, to look in your summary book, I believe about the eighth page. It is a fold-out. The information is shown under the box in the middle right "Systems research and development."

Mr. JONAS. "Systems maintenance service?"

I am surprised to see the small number of what I would call, not necessarily supergrades, but what I would estimate would be technical people and your heavy overbalance of employees under grade 12.

Mr. BLATT. Well, sir, the mass of employees, that is the employees would fall into two categories.

It must be remembered that we have a large number of low-grade employees maintaining the plant at NAFEC.

Mr. JONAS. We are not talking about that now. We are talking about direction. NAFEC is staff.

Mr. BLATT. What you see here under the 1965 fiscal year heading are both appropriations, the 322 plus the 1,114 are both the operations and the R. & D. appropriation.

Mr. HALABY. In other words, there are 80 less people in the Washington category than last year and there are 228 less in the field category. The departmental stands for Washington headquarters and the field is almost entirely at Atlantic City.

Mr. JONAS. My point is that your table shows that you only have four people that you call scientific.

Mr. SHANK. No, sir.

Mr. JONAS. Read your own table.

Mr. SHANK. That stands for a particular category.

Mr. JONAS. Scientific?

Mr. SHANK. It is a civil service label that covers the Public Law 313's but most of those people, all the way down to 13, would be scientific people.

Mr. HALABY. That category of scientific refers to Public Law 313 appointments, the law under which you made special exceptions to the regular civil service. It is really a scientific supergrade.

Mr. JONAS. Your 115 in the department and your 969 in the field are certainly not scientific. They are what I would call administrative, is that right?

Mr. SHANK. No, sir; they are for the most part skilled people, the expert technician, the expert wireman, the mechanics, the various skills. Any well run technical organization will be less than half of what we would call scientists and engineers. Somewhere in the neighborhood of half will be of the various supporting technicians.

It is not efficient to have engineers do their own wiring or do their own manual task.

Mr. JONAS. You would not call that direction, would you?

Mr. SHANK. No, sir.

Mr. JONAS. I was talking about research direction. You have 306 people in it. It is nearly $4 million. I wanted you to have an opportunity to put on the record some justification for that amount of what I would call housekeeping.

Mr. HALABY. What you would like is a breakdown of the research direction and administration category in terms of grades and types of personnel.

Mr. JONAS. I think that would help your record.

Mr. HALABY. We will provide that table for the record.

(The table follows:)

RESEARCH DIRECTION

Direction and administration, fiscal year 1965

Professional:	
Scientific and technical	121
Special	8
GS–17	4
GS–16	25
GS–15	45
GS–14	14
GS–13	15
GS–12	10
Administrative and management	51
Statutory	2
GS–16	1
GS–15	7
GS–14	13
GS–13	8
GS–12	11
GS–11	9
Subprofessional:	
Scientific and technical	12
GS–11	8
GS–9	1
GS–7	1
GS–6	1
GS–5	1
Clerical	122
GS–9	8
GS–7	18
GS–6	24
GS–5	39
GS–4	22
GS–3	11
Total	306

PORTION OF RESEARCH AND DEVELOPMENT FUNDS TO BE CONTRACTED

Mr. JONAS. One other question, Mr. Chairman, and then I won't have any more on this.

Of your $42 million, how much are you spending in-house? Is it all of it?

Mr. HALABY. No, sir.

Mr. JONAS. What proportion?

Mr. BLATT. Of the research and development appropriation?

Mr. JONAS. Yes.

Mr. BLATT. 60 percent of the research and development appropriation is contracted out.

Mr. JONAS. With whom are you contracting? Do you have a record of those?

Mr. BLATT. Yes, sir. There are quite a number of contractors.

PROJECTS UNDER CONTRACT

Mr. JONAS. Just name a few and what kind of research they are doing for you.

Mr. BLATT. All right.

We have have a contract with Airborne Instrument Laboratories, of Mineola, Long Island. They are producing a new radar instrument landing system. We have a contract with the Burroughs Corp., of Paoli, Pa., producing a radar and beacon digital processor. This device will detect and process the primary and secondary radar information so that we can put it into a data processor to provide the alphanumerics that you saw on the simulated radar display that the Administrator showed you the first day of these sessions.

There is the contract with the Hazeltine Corp. of Little Neck, N.Y., that is producing the alphanumeric generator itself. There is a contract with the Raytheon Corp. that is producing the pictorial display. the scan-converted display on which we will show these alphanumerics and beacon responses.

TYPES OF CONTRACTS

Mr. JONAS. Are these specific contracts for given amounts of money or are they cost plus? What kind of contracts are they?

Mr. BLATT. We operate under a whole spectrum of contract types. We operate with cost plus fixed fee, we operate with cost plus an incentive fee when time is of the essence; we operate under a fixed-cost type of contract when we can procure off-the-shelf type equipment, or when Research and Development is not involved in a particular component that we require in our system.

For the most part, when we are attempting to procure an advancement in the state of the art, we are forced to go into a cost-plus-fixed-fee type of contract.

Mr. EVINS. On page 490 there is a comprehensive table on total research and development for the agency, which shows contracts, $27,720,000. This consumes a large portion.

This is nearly $28 million in contracts, there is $32 million in in-house costs of all types.

COMBINING JUSTIFICATION FOR RESEARCH DIRECTION AND RESEARCH AND DEVELOPMENT

I think it would be advisable, at least from my point of view, Mr. Administrator, and Mr. Blatt, next year to have your research direction and research development all in one justification section. I do not see why it is scattered in three or four places. If you put it all together it would be helpful.

Mr. OSTERTAG. And medical standards and medical research ought to go with it. It would seem to me that anything associated with research should be centralized in your justification.

Mr. EVINS. There is a lot of detailed information.

Mr. HALABY. We have that, sir, on page 98 of the small book. It is all together, aviation, medical, facilities equipment, operations. We will try to do it better next year.

Would it be helpful, Mr. Jonas, if we provided a list of the principal contractors and locations for the record?

Mr. JONAS. Unless you want it. It will be all right with me. I just wanted to get a general idea.

Mr. OSTERTAG. Do you show here a list of your projects?

Mr. BLATT. No, not a list of the projects. We break it down into program areas only, sir.

Mr. OSTERTAG. I see that. That is program areas.

Mr. BLATT. I can supply a detailed list of the specific subprograms in each program area. In fact, I can read them. I have them all here.

Mr. EVINS. In view of the $42 million request and in view of the Special Committee on Research I believe supplying a list for the record, will be valuable.

Mr. OSTERTAG. Will you insert that in the record at this point?

Mr. HALABY. It will be a very voluminous list. Can we submit it to you for consideration as to whether you want that much volume in the record?

(Discussion off the record.)

Mr. EVINS. You detailed about six. How many in numbers would it involve approximately?

Mr. BLATT. I would judge it would be roughly a listing of 80 subprograms.

Mr. OSTERTAG. That is not bad.

Mr. HALABY. Then you have Dr. White, Mr. Bates. You decide whether you want to use it.

Mr. BLATT. It will be about 130 items.

Mr. JONAS. Send it up and we can determine whether we want it.

Mr. EVINS. Submit it for the committee.

(The material supplied follows:)

Research and development, fiscal year 1965

	In thousands
Total research and development appropriation	$42,000
I. Air traffic control program area	23,905
A. ATC operations program	1,000
Development of ATC separation criteria.	
Advanced ATC system concept studies.	
Traffic analysis.	
Economic analysis.	
B. Data display program	8,080
Modifications to en route data display system.	
Data display subsystem—NAS.	
Modifications to terminal displays.	
C. Data processing program: Data processing subsystem—NAS	10,075
D. Data acquisition program	2,770
Interference, elimination, and reduction.	
FAA radar beacon transmitter site equipment.	
High reliability interrogator.	
Beacon code processors.	
Improved DF and cooperating DF systems.	
Data acquisition technique compatibility.	
System characteristics of ADSA system for general aviation use.	
Systems characteristic of a complete ADSA system.	
System characteristics of ADSA for over-ocean use.	

Research and development, fiscal year 1965

	In thousands
I. Air traffic control program area—Continued	
E. Data transfer and communications program	$1,980
Improvement to present comunications equipment.	
NAS point-to-point data transfer.	
Data communication system design.	
Digital input/output devices.	
Modernization of VHF/UHF air-ground RF systems.	
Advanced long-distance VHF/UHF air-ground systems.	
II. Navigation program area	7,500
A. Approach and landing program	4,525
Design variations for ILS localizer antenna for category II and III.	
Low-approach system for helicopters.	
Category II and category III landing instrumentation and displays.	
Low-cost ILS system.	
Cost analysis and weather study for landing systems.	
ILS ancilliary items improvement.	
Improvement of ILS system performance during inclement weather.	
Glide slope waveguide array.	
ILS transmitter improvement.	
ILS category III monitoring.	
Multielement glide slope array.	
Reliability analysis for category III landing system.	
Category III landing system airborne engineering.	
Category III landing system localizer.	
Category III landing system glide slope.	
Category III landing system ILS ancilliary components.	
B. Short-distance nagivation program	1,390
Area coverage navigation displays.	
Utility of self-contained navigation systems in the domestic environment.	
New common system short distance NAVAID.	
Standard time-referenced system.	
Pressure altimeters.	
General-purpose DME transponder.	
Precision VOR.	
DME radial groundspeed and time-to-go airborne Equipment.	
Doppler VOR transmitter.	
Doppler VOR antenna system.	
VORTAC as a helicopter NAVAID.	
Helicopter RHO/RHO navigational system.	
VORTAC pictorial displays for helicopter—Navigation.	
Improved conventional VOR antenna.	
RTN–1 TACAN improvements.	
RTN–2 TACAN improvements.	
VORTAC identification light.	
VORTAC course bend elimination.	
C. Long-distance navigation program	410
LORAN system simulator.	
Inertial navigation system.	
Airborne navigation computers.	
Atomic clock navigation system investigation.	
D. Performance assurance program	1,175
En route facility checking utilizing radar tracks.	
Ground test and calibration equipment.	
Improved TACAN/DME monitor.	
Snow effects on VORTAC performance.	
VOR/TACAN/DME receiver accuracy test system.	
Radiofrequency interference.	
Flight inspection test and calibration equipment.	
Supersonic flight operations.	

Research and development, fiscal year 1965

	In thousands
III. Aviation weather program area	$1,470
A. Weather data handling program: Automatic weather Broadcasting	30
B. Weather data presentation program	1,275
ATC weather data display system.	
Airport weather data display system.	
C. Applied research program: Studies in support of ATC system design and operation	165
IV. Aircraft safety program area	4,995
A. Airframe program	1,092
Fuel containment under survivable crash conditions.	
Crashworthy integral fuel cells.	
Integrity of airframes structure under crash conditions.	
Dynamic testing of aircraft seats.	
Improvements in ground operation of aircraft.	
Studies of loads measurements.	
Structural and mechanical integrity criteria for V/STOL aircraft.	
B. Propulsion program	885
Powerplant fire tests.	
Lightning hazards.	
Blade vibration stresses.	
Investigation of bird ingestion.	
V/STOL powerplant requirements.	
Minimization of aircraft crash fire hazards.	
C. Noise suppression program: Noise control and suppression	710
D. Equipment program	350
Bomb or explosive detectors: Countermeasures techniques for aircraft.	
Aircraft flight recorders.	
Aircraft maintenance recorder.	
E. Flight program	742
Aircraft performance.	
Evaluation of angle of attack indicating systems.	
Takeoff performance indicator/director systems.	
Aircraft handling qualities.	
Aircraft design induced pilot error.	
F. General aviation cockpit display program	716
Human factors basic study.	
General aviation simulator.	
Control systems analysis.	
Pilot training and evaluation.	
Integrated airborne navigation communication systems.	
Attitude display.	
Navigation display.	
Aircraft modification.	
G. Subsonic aircraft development program	500
Local service transport design study.	
Development of austere turboprop powerplant.	
Compound helicopter economic and technical feasibility study.	
Triservice aircraft route study and market analysis.	

Research and development, fiscal year 1965

	In thousands
V. Airports program area	$2,280
A. Airport design program	480
Pendant cable support system for arresting gear.	
Airport firefighting equipment and techniques.	
B. Airport visual aids program	1,800
Lighting and marking for all-weather instrument operations.	
Airport lighting and marking for general instrument operations.	
VI. Aviation medicine program area	1,850
A. Air traffic controllers and aircrew members: Physiological stress, fatigue, and aging factors relating to proficiency	490
B. Air traffic controllers and aircrew members: Psychological stress, fatigue, and aging factors relating to proficiency	140
C. Air traffic controllers: Proficiency, selection factors, and optimum characteristics of air traffic working environment	135
D. Civil aviation: Passenger and crew emergency procedures, oxygen equipment, and safety measures	200
E. Civil aviation personnel: Drug effects on performance and safety of aircrew and ground-support personnel	100
F. Aerial applicators: Effects of toxic chemicals upon health and safety	90
G. Injury prevention in light- and heavy-aircraft accidents	244
H. Civil aviation generated biological stresses in the general population	21
I. Physiologic age rating for pilot certification eligibility	236
J. Prognostic studies of diseased states influencing flying safety	194

REVENUES FROM LANDING FEES

Mr. BLATT. I did not have an opportunity to complete the record. There is a question as to what we received in landing fees.

Mr. EVINS. Supply that for the record also.

Mr. BLATT. I have it here. We received $11,696.47 in landing fees last year.

Mr. OSTERTAG. That was which fiscal year?

Mr. BLATT. Calendar year 1963.

Mr. JONAS. Is that landing fees, rent, everything, all receipts?

Mr. BLATT. The only receipts we have are landing fees. The city of Atlantic City——

Mr. HALABY. Don't we charge Atlantic City a dollar or some small amount?

Mr. BLATT. The city of Atlantic City owns the land upon which their terminal building and ramp is constructed. This was part of a negotiated deal.

Mr. EVINS. You will find plenty of cities in the country that will furnish the land if you will build a facility and maintain it.

Come down to our area.

CONTRACT CLAUSE FOR RECOVERY OF DEVELOPMENT COSTS

Mr. BLATT. I would like to indicate as the Administrator indicated in the first day that we are doing something that I feel is quite forward in Government contracting. When we do a research and development project that has commercial possibilities we insert a clause in the contract for the recovery of our research and development costs, and this recovery is normally stipulated at 5 percent of the contractor's gross revenue.

I would like to give an example of a successful venture in this area. We let a contract with the Wilcox Electric Corp., of Kansas City, Mo., in the amount of $65,040 for the development of a general aviation transponder. This contract had in it the recovery-of-development-costs clause. We have recovered to date from that $65,000 venture, $22,063 returned to the Government. They have sold an additional 60 units at $1,392 each, indicating that there is an additional return due us of approximately $4,000.

Mr. EVINS. You have done pretty well.

Mr. BLATT. We have received back better than $26,000 from that $65,000 investment.

Mr. EVINS. You are not building any wind tunnels up there; are you?

Mr. BLATT. No, sir.

PROJECT "LITTLE GUY"

Mr. OSTERTAG. Will you give us a quick rundown on Project "Little Guy"?

Mr. HALABY. We are kind of running out of time, here. Could I give a quick rundown, Mr. Ostertag, because I am personally responsible for this project? Mr. Bates is supervising it. This is a project to provide for the first time a fully systemed engineered cockpit for light planes.

It is the first major attempt to design from scratch an instrument panel that would enable the fledgling pilot to learn how to fly on instruments with greater simplicity and security. It is based upon 10 years of Army and Navy integrated instrumentation research; amounting to about $50 million worth of investment of military funds, and an attempt to translate that into the cockpit of a small plane.

What it would provide is a prototype of a cockpit that would display to the pilot something that looks like the normal display he sees in good weather. We are not going to make it a standard item.

We are simply offering it to the industry in the hopes that it will be used and will make it easier and safer to fly.

Mr. OSTERTAG. I do not want to take any more time with this. Off the record.

(Discussion off the record.)

Mr. EVINS. If there are no further questions on research we will turn to airports.

Airports Program

Under that I find research and development of airports. This is another item that probably could be included in your research.

Mr. Blatt. Yes, sir.

Mr. Evins. Mr. Reporter, here again we will consolidate the two. Place in the record pages 282, 283, 285, 286 through 289, and then jump over and place in the record page 471.

(The pages follow:)

Administration of Airport Program

Requirements

	1964 appropriation		1965 estimate		Difference	
	Positions	Amount	Positions	Amount	Positions	Amount
Airport planning	179	$1,853,000	177	$2,074,000	−2	$221,000
Airport standards development and applications	189	2,096,000	182	2,185,000	−7	89,000
Airport development	158	1,572,000	156	1,790,000	−2	218,000
Program management	40	483,000	40	516,000		33,000
Staff and supporting services	180	2,347,000	176	2,469,000	−4	122,000
Total	746	8,351,000	731	9,034,000	−15	683,000

GENERAL JUSTIFICATION

Activity under the "Administration of the airport program" consists of the planning and development of the Nation's system of public airports to serve the needs of civil aviation in the 50 States, Puerto Rico, and the Virgin Islands. The principal activities include administration of the Federal-aid airport program; preparation of the annual revision of the National Airport plan, development and application of planning, engineering, and airport safety standards; furnishing of planning and engineering advisory services; and assuring compliance of sponsoring public agencies with laws governing the use Federal funds for airport construction.

AIRPORT USE TRENDS

Airport utilization will continue to increase as a result of increases in (1) enplaned passengers, (2) passenger-miles flown, (3) aircargo, (4) general aviation flying, and (5) numbers of aircraft in use. Enplaned passengers in fiscal year 1969 are expected to exceed fiscal year 1963 by 30 percent; there were 63.3 million in 1963, and will be 82 million by 1969. Passenger-miles will increase during this period by 40 percent, from 35.1 billion in fiscal year 1963 to 49 billion in fiscal year 1969. Cargo will increase by 64 percent, from 1.1 billion ton-miles in fiscal year 1963 to 1.8 billion ton-miles in fiscal year 1969. Total general aviation aircraft in use are expected to increase by 21 percent, from 84,121 in fiscal year 1963, to 102,000 in fiscal year 1969.

These increases in aviation activities will result in increased aircraft operations at airports; i.e., landings and takeoffs. Statistics on aircraft operations are available only for the 274 airports with FAA air traffic control service. In fiscal year 1963 at such airports, there were 29.2 million operations, and in fiscal year 1969 there are expected to be 36.9 million, an increase of 26 percent. To this data must be added the aircraft operations at the approximately 2,700 public airports that do not have FAA air traffic control services and for which operations statistics are not available.

The table below shows that most of the operations, as well as most of the expected increase, is accounted for by general aviation. Increasing emphasis will continue to be given to the development and improvement of airport facilities for general aviation. However, air carrier operations will also continue to rise, with a 15-percent increase expected over the period. These operations will be flown by larger, more sophisticated aircraft that make greater demands on airport facilities.

PROGRAM PLANS

The continued increase in volume of all aviation activity, and the expanding use of commercial jet aircraft, has resulted in a heavy demand for (1) development of new and revision of existing airport planning and engineering standards, and (2) provision of advisory services and assistance to the aviation industry and public agencies concerned with airport development. Program plans include continued development of standards and guides to govern airport planning, design, construction, maintenance, and airport safety practices, and improvement in the techniques of preparing annual national airport plan which identifies the need for development of the Nation's airports. Greater emphasis will also be given to assuring compliance in the use of airports in accordance with Government agreements.

The fiscal year 1965 funding requirements to provide for continuation of the administration of airport program is set forth in the above program plans are summarized as follows:

	1964	1965	Difference
Positions	746	731	−15
Amount	$8,351,000	$9,034,000	+$683,000

In 1965 direct staffing for administration of the airport program will be reduced by 11 positions. However, net additional funds of $683,000 are required for pay increases, mandatory within-grade salary increases, and additional average employment to carry out the program plan discussed above. In addition, costs of rent, communications, and utility services allocated to this activity will require a net increase of $122,000, after taking account of savings from a reduction of four staff and support positions allocated to this activity. Changes in the 1965 program are summarized in the following table and discussed in detail in the following pages.

	Positions	Amount
Direct costs:		
Phase II pay increases		$150,000
Other pay adjustments		55,000
Other cost adjustments		356,000
Staff and supporting services	−11	356,000
	−4	122,000
Total	−15	683,000

Phase II pay increases, +$150,000

This category of cost represents the amount required to meet the cost of that portion of the pay increases authorized by Public Law 87–793 and becoming effective in January 1964. The estimate is based on employment in general schedule grades as of January 1, 1964, and was computed on a grade-by-grade basis to give proper weight to the different amount of increase for each grade level. The amount included in this estimate represents the difference between the total yearly value of the increase and the amount which was payable in 1964. On the average, this estimate is 51.5 percent of the total yearly costs.

Other pay adjustments, +$55,000

During the fiscal year 1965, $55,000 will be required to finance within-grade salary increases and additional salary costs of personnel who will be qualified for and promoted to higher grade levels than positions occupied during 1964. This estimate is based on present grade levels of employees in this activity and the length of time they have been in present grade levels, as well as costs to promote 24 employees who will be qualified for the first time for grade promotions.

Other cost adjustments, +$356,000

Increased costs of $356,000 are required for additional workload for expanded emphasis on airport planning and small increases for revision and updating technical airport development standards, direct administration of the grant agree-

ments with sponsors, and general supervision. This increase is a net amount after a reduction of 11 positions and $109,000 for Washington headquarters staffing based on improved productivity.

Staff and supporting services, +$122,000

Staff and supporting services costs allocated to the airports program in 1965 will increase by $122,000 because of increases arising primarily from additional rent and communications costs, pay increases, and other salary increases. These additional costs exceed savings resulting from employment reductions in staff and support activities which permit a reduction of four in the number of positions allocated to the airports activities.

Airport planning

	1964 appropriation	1965 estimate	Difference
Permanent positions	179	177	−2
Amount	$1,853,000	$2,074,000	+$221,000

This activity provides for: (1) carrying out the Agency's responsibilities for planning a national system of airports; (2) the preparation and application of criteria, standards, and guidelines for identifying and evaluating the need for airport development; and (3) the coordination of airport-airspace matters.

The current edition of the national airport plan includes 3,559 airports, and identifies $1,082,439,000 in development needs for the fiscal years 1963–67 period. A revision of the national airport plan will be published in the last half of fiscal year 1964.

During the past year, the Agency initiated a searching review of the techniques used for airport planning. The results of this review will provide new tools with which to more accurately forecast the need for airport facilities in specific communities. In addition, new contracts and coordination procedures were worked out with other Federal agencies, such as the Housing and Home Finance Agency and Bureau of Public Roads, whose programs have a potential relationship to airport development.

Another important function funded under this activity is the collection of data on facilities at the Nation's airports; this data is essential to the support of a broad range of aeronautical information and charting services conducted by FAA and other organizations. Currently data is collected, primarily through airport inspections, at 8,084 airports on record as of December 31, 1962.

The change in requirements for 1965 reflects an increase of $221,000 required for airport planning work in order to provide $45,700 for salary costs arising from the Public Law 87–793; $17,000 for additional within-grade salary increases and net additional man-years of workload devoted to stepped-up planning efforts, $158,300. This additional workload cost reflects requirements after adjusting for a reduction of two positions in the Washington staff. No new programs are included.

Airport standards development and application

	1964 appropriation	1965 estimate	Difference
Permanent positions	189	182	−7
Amount	$2,096,000	$2,185,000	+$89,000

This activity provides for: (1) the development of engineering standards that govern the design, construction, and maintenance of airports; (2) the development of airport safety standards; (3) the application of these engineering and airport safety standards through the engineering review of Federal-aid airport projects; and (4) rendering of advice to non-Federal-aid airport program airport development projects.

During fiscal year 1963, considerable progress was made on the revision and updating of technical standards, and on the integration of such material with the Agency's comprehensive advisory circular system. In addition to being

generally available to the airport industry, these standards are applied by district office airport engineers in the review and approval of federally aided airport development projects. As of June 30, 1963, 341 such projects were in a process of formulation, and 555 were under construction; in these stages, there are extensive demands for engineering skills in the application of FAA technical standards. To these were added 452 new projects in the fiscal year 1964 program, and an estimated 455 new projects will be added in fiscal year 1965.

The 1965 increase of $89,000 required for the development and application of airport standards provides $52,500 for salary costs resulting from the phase II requirement of the Salary Reform Act of 1962, $19,200 for within-grade salary increases and a net additional requirement of $17,300 for additional man-years of effort in this area. This latter amount reflects the requirements after adjusting for a reduction of seven positions in the Washington staff. No new programs are included.

Airport development

	1964 appropriation	1965 estimate	Difference
Permanent positions	158	156	−2
Amount	$1,572,000	$1,790,000	+$218,000

This activity provides for the development of policies, standards, criteria, and guidelines that goven the airport developmental programs of the Agency. These include the Federal-aid airport program (FAAP), the land transfer, and the surplus property programs. The activity also provides for: (1) the conduct of activities related to achieving compliance of sponsors with existing grant agreements; (2) coordination of civil-military use of airport facilities; (3) liaison with industry and with other Federal agencies on airport use and development; and (4) development of guidance material on zoning, land use, land acquisition for noise and obstruction abatement, and on the economics and service aspects of operation of airports.

As of June 30, 1963, there were 1,386 active FAAP projects. In August of 1963, 452 additional projects were announced for the fiscal year 1964 program, and it is expected that by June 30, 1964, there will be 1,588 active projects. With the expected extension of the Federal Airport Act, active project workload will grow to an estimated 1,743 by June 30, 1965.

As of June 30, 1963, there were 1,966 airports subject to agreement with the United States. The FAA is charged with assuring compliance of airport owners with such agreements. This requires airport inspection and review, as well as dealing with complaints from the public regarding alleged violations of grant agreements.

The increase of $218,000 for 1965 provides $39,400 for salary increases required under the Salary Reform Act of 1962 and $15,200 for within-grade salary increases, and a net increase of $163,400 chiefly for additional man-years of workload. This additional workload cost reflects requirements after an adjustment for a reduction of two positions in the Washington staff. No new programs are included.

Airports, $2,280,000

Research and development efforts conducted under this activity are directed toward increasing the capacity, efficiency, and safety of the Nation's airports. Particular emphasis is placed on improving basic airport design and developing new equipment and techniques in the fields of airport lighting systems and airport safety equipment.

The airports activity includes two programs:

(*a*) *Airport design program, $480,000.*—This program is directed toward improving airport design standards and the development of new equipment and techniques for airport use. The program for fiscal year 1965 provides for the continuation of two major efforts. Arresting gear pendant supports will be installed and tested in a joint effort with the Navy and the Air Force to provide improved arresting gear for civil-military airports. Tests and evaluation will be continued on the equipment and techniques used in airport firefighting.

(*b*) *Airport visual aids program, $1,800,000.*—This program provides for improving the equipment and techniques used for lighting and marking airports.

The fiscal year 1965 program includes two major projects aimed at developing and testing new lighting systems for instrument operations. One system is intended for use under all weather landing conditions. The second system is less complex and will be used for general instrument operations.

Mr. EVINS. First is airport planning. In 1964 you had 179 employees. You want 177, or a reduction of 2 in airport planning; airport standards, 189 to 182, a reduction of 7; airport development, 158 to 156, again, a reduction of 2 personnel, in the staff and supporting services, 180 to 176, a reduction of 4 or a total reduction of 15 personnel. Your appropriation goes up from $8,351,000 to $9,034,000, or an increase of $683,000, with 15 reduced personnel.

Page 471 says your research involves studies directed toward increasing the capacity, efficiency and safety of the Nation's airports, and in airport design you propose to spend $480,000, and airport visual aid programs, $1,800,000, or for research on improvements of airports, a total of $2,280,000.

There is a lot of information on airport trends.

Pay increases and other pay adjustments and other pay costs account for probably a large part of the $680,000 increase.

Mr. HALABY. Yes, sir.

Mr. EVINS. These are all made necessary by statute.

The increase of $218,000 for "airport development" for 1965 provides $39,400 for salary increases under the Salary Reform Act and $15,200 for within-grade increases and a net increase of $162,000, chiefly for additional man-years of workload. This appears on page 289.

You have also a justification by objects, on page 295.

"Personnel and benefits" are on page 296.

FAA AND AIRPORT SPONSORS ROLE IN AIRPORT PROGRAM

Mr. Administrator, tell us what you do as compared with what the municipalities are required to do in building and development of the airport. We are not taking over building everything for them, are we? I would think that your aid programs ought to be somewhat limited and not have them look to FAA and Uncle Sam for everything.

Tell us the line of these divisions.

Mr. HALABY. The municipalities put together a list of airport facility needs each year and it is somewhat over a billion dollars of accumulated needs over the coming 4 or 5 year period. Based on present authorizations the Federal Government would meet about $375 million of that total of $1.1 or $1.2 billion that has been presented.

The way it is limited is in this fashion: The municipality initiates a project. They select a site. They do some advance planning and surveying. They estimate costs and they then seek our assistance, technical planning assistance at this stage.

Then they proceed to get their approvals, usually their county or city approvals and then proceed to develop a funding mechanism.

They come to us then with an application. Our district airport engineer, our regional airport division and Mr. Morrow look at these applications. There are some 1,600——

Mr. MORROW. Nearer 1,700.

Mr. HALABY. 1,700 active projects at the present time and there are some 400 new projects each year.

GOVERNMENT'S SHARE BASED ON SAFETY FEATURES

They ask for half of the cost of the runways, the taxiways, the lighting, and the safety features to be matched by Federal money, in accordance with the Federal Airport Act.

In some categories they can go up as high as 75 percent on certain safety items. There is no provision for terminal building assistance as there used to be. There is no provision for convenience and highways and other features. It is concentrated on the safety features and it is always local initiative matched on a fractional basis by Federal assistance.

Mr. EVINS. Yours is technical assistance as to the land locations, after a survey, as to whether it is a desirable locality for development of an airport.

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. Or expansion?

Mr. HALABY. Or expansion or improvement.

Mr. EVINS. Hangar developments are provided locally?

Mr. HALABY. Yes, sir.

Mr. EVINS. What about fire protection and fire prevention?

Mr. MORROW. We participate only in the portion of the cost of developing the buildings, to house the fire and rescue equipment. We do not participate with Federal aid in the acquisition of the equipment that is put on the airport. A fire engine for example, is considered a piece of equipment, the same category as a snow plow or a mower or other piece of equipment for the airport.

Mr. EVINS. Any further questions on airports?

Mr. JONAS. Yes, sir. I have one, if Mr. Ostertag does not.

Mr. OSTERTAG. I have on grants but not on this.

Mr. JONAS. Here, again, Mr. Administrator, you have 25 percent of the total cost of this program charged up to overhead, housekeeping, administration, or $2.5 million out of $9 million. That seems awfully high to me. You have 175 people doing it.

NUMBER OF AIRPORT PROJECTS

Mr. HALABY. At any one time there may be a total of how many projects in the program, Mr. Morrow?

Mr. MORROW. We have at the present time as active projects about 1,650.

Mr. HALABY. 1,650 projects and there are a number of airports which were part of the surplus program——

Mr. MORROW. 614.

Mr. HALABY. 614 World War II surplus airports for which we have an auditing and surveillance responsibility, so that at any one time there may be as many as 2,000 projects under the cognizance of the program.

That entails very heavy legal and auditing responsibility, as well as the substantive engineering role that we have to take in caring for about $80 million a year that may be available in the program. We have reduced the number of positions as you will notice by 15 in the total program and we have reduced the number of overhead positions by 2.

Mr. JONAS. Four, is it not?
Mr. HALABY. Yes, sir, I am sorry, four.

OVERHEAD COSTS—AIRPORT PROGRAM

Mr. JONAS. One of your activities listed is management improvement but you have a separate section on program management. You have 40 people in there. That costs $516,000. You have these people in this staff and supporting activity. They handle your budgeting, financial reporting, payrolling, personnel activities, security, and other services of a general housekeeping nature, including mail distribution, printing, and duplicating.

My point is that 25 percent of the total program spent on housekeeping seems high. You have people engaged in every program doing some of that, too.

Mr. DEAN. Mr. Jonas, when we get to page 495, it will show how the total staff and support has been broken down by the seven program activities, including the airport service. Most of them have, as you correctly pointed out, a much lower ratio of staff and support than airports; the reason for the relatively high assignment to airports is not only does it get its share of all of the normal payroll, executive direction and other costs of the Agency, but it eats up half the total audit staff of the entire Agency and it eats up a very heavy portion of the legal staff.

Mr. JONAS. How many of these 176 people are actually engaged in what we call housekeeping activity—that is, making up payrolls, personnel records, budgeting, mail distribution, printing and duplication, and how many lawyers do you have in it who are handling the legal business?

How many engineers do you have; how many auditors do you have to break that down?

Mr. HALABY. Could we look at either page 105 in the small book——

Mr. JONAS. That is the point. We have to look in too many places.

Mr. HALABY (continuing). Or 495 in the big book if you prefer.

Mr. JONAS. I looked at that. I cannot get answers from that.

Mr. HALABY. That is total staff and supporting services of the whole Agency, of which the amount attributed to the airport program is $2,469,000.

Mr. JONAS. How many of your 176 people in the staff and supporting services are engaged in what we refer to as housekeeping activities and how many are engaged in technical services, such as legal and auditing?

Mr. DEAN. We will have to put a precise answer in the record. We examine this each year in assigning the number of positions to this function but I can tell you roughly it will be about 40 audit positions.

Mr. Goodrich could give you the legal requirements, but it is one of the heaviest demanders of legal support because every grant agreement must be legally examined. Every payment made to a community in connection with a grant must be individually audited in order to assure protection of the Government.

Possibly 70 of these positions are involved in the legal and audit functions and are not included in just the normal overhead.

Mr. JONAS. That would leave a hundred.

Mr. DEAN. It might be.

Mr. JONAS. They would be in housekeeping, to supervise—to handle 700 people—to handle personnel and payroll records. That is one out of seven.

Mr. DEAN. There is a heavy accounting burden from the airport function. They have their vouchers. We will break this overhead figure down and put it in the record, but the airports activity does place heavy demand on the accounting, audit, and legal functions.

(Note: The Agency subsequently confirmed that 98 employees are engaged in accounting, audit, and legal services for the airports activities.)

Mr. JONAS. Don't you think this would be a good place to take a pretty sizable cut?

Mr. DEAN. I would think, Mr. Jonas, when we get to the general review of staff and support, on page 495, we can look at that entire picture. Certainly we would reduce a few positions in this particular area if we could curtail some of these types of support, but we have to protect the public interest when we are dealing with local communities.

Mr. JONAS. I know the public interest has to be protected but using one out of seven employees to handle the personnel records, it seems to me you ought to be able to standardize that and get a better workload arrangement and reduce some of those. I know you reduced it by four but the total cost goes up.

Mr. OSTERTAG. Of course, bearing in mind there is a total of 731 positions in the overall administration of the airport program; isn't that correct?

Mr. HALABY. Yes. The overall administration, the technical, administrative, engineering, regulations, planning, and this item that Mr. Jonas has focused on is the allocation from the total staff and supporting service to the airport service.

Mr. OSTERTAG. That is right.

Mr. HALABY. In other words, $2.4 million out of a total $48 million is laid on them.

Mr. JONAS. I fail to understand how you need 177 people planning airports.

Mr. HALABY. Mr. Jonas, I guess——

Mr. JONAS. 182 are developing standards. Don't you ever get all the standards developed? Do they all work on every change? How do you utilize that many people developing airport standards?

Mr. HALABY. Let Mr. Morrow answer the second question. On the first one, like in many businesses, we have lumped all of the overhead items on this page 495. These are the overhead, staff, and supporting services and they total $48 million this year, with 3,489 people; last year it was 3,608 people.

We have, in other words, saved over 100 and we are hoping to save more in this area. This is only 3.9 percent in dollars and 6.8 percent in the number of positions in the agency, which is a very low overhead ratio for Government agencies.

Now, Mr. Morrow does not have much to say about how much of this $48 million we attribute to him. In fact, he is unhappy to see $2,469,000 attributed to him because he says, "I do not have any 176 people in my shop," and he doesn't, but he does have that proportion

according to our own management decision of the work that goes on in the administrative support shop.

This argument goes on in every company I have ever counseled or been an officer of. The line people say, "I can do without that staff," except when they need them. If they want to hire somebody then they go to personnel. If they get themselves in hot water they want a lawyer real quick, but they do not like this allocation of overhead cost to them. They just want to deal with the direct costs.

Mr. JONAS. Where on page 495 do you have these other staff people listed?

Mr. HALABY. You see, sir, if we gave him 20 lawyers for airports program and then we gave Mr. Blatt 5 lawyers for R. & D., and we gave Mr. Thomas 25 lawyers for air traffic control suits, we would have about 15 law firms in there, but what we do is we set up one law firm under Judge Goodrich here and then he allocates work out to each of these divisions, as in a company, and they therefore are able to get along, for example, with fewer lawyers, six fewey lawyers this year than last year but they serve the whole Agency.

We have to pool all of this administrative money and then charge it out on the basis of periodic workload analyses. Brother Morrow gets $2,469,000 out of it because he, we believe, places very large burdens on it.

AIRPORT PLANNING

Mr. JONAS. Comment briefly about your need for 177 people for airport planning. Will we ever catch up with airport planning? Is that a permanent cost that we will have to sustain?

Mr. MORROW. We are required under section 2 of the Federal Airport Act to prepare annually what is called the national airport plan which is a document setting forth the needs for airport development for the forthcoming 5 years.

The purpose of this plan is to identify the needs for airport development so that an orderly system of airports can be provided and that these airports will be consistent with the safety standards and air space utilization standards that must be attained in the development of the system of airports.

Mr. EVINS. Let's place at this point in the record page 287 of the justifications relating to operations.

(The page follows:)

Airport planning

	1964 appropriation	1965 estimate	Difference
Permanent positions	179	177	−2
Amount	$1,853,000	$2,074,000	+$221,000

This activity provides for (1) carrying out the Agency's responsibilities for planning a national system of airports; (2) the preparation and application of criteria, standards, and guidelines for identifying and evaluating the need for airport development; and (3) the coordination of airport-airspace matters.

The current edition of the national airport plan includes 3,559 airports, and identifies $1,082,439,000 in development needs for the fiscal years 1963–67 period. A revision of the national airport plan will be published in the last half of fiscal year 1964.

During the past year, the Agency initiated a searching review of the techniques used for airport planning. The results of this review will provide new tools with which to more accurately forecast the need for airport facilities in specific communities. In addition, new contracts and coordination procedures were worked out with other Federal agencies, such as the Housing and Home Finance Agency and Bureau of Public Roads, whose programs have a potential relationship to airport development.

Another important function funded under this activity is the collection of data on facilities at the Nation's airports; this data is essential to the support of a broad range of aeronautical information and charting services conducted by FAA and other organizations. Currently data is collected, primarily through airport inspections, at 8,084 airports on record as of December 31, 1962.

The change in requirements for 1965 reflects an increase of $221,000 required for airport planning work in order to provide $45,700 for salary costs arising from Public Law 87-793; $17,000 for additional within-grade salary increases, and net additional man-years of workload devoted to stepped-up planning efforts, $158,300. This additional workload cost reflects requirements after adjusting for a reduction of two positions in the Washington staff. No new programs are included.

Mr. MORROW. There are listed in the plan the development of 3,559 airports in the United States out of which I believe 1,887 have actually received Federal aid. Not all of these airports that are listed are new airports. There is a great deal of improvement to existing airports that has been identified and that is needed.

The airport planning activity is the real foundation of development of our entire airport system. Certainly without a unified and coordinated planning effort by the Federal Government we would not be able to develop a system of airports. We would have a hodgepodge of individual ideas and types of airports and we certainly would not be able to develop what we call a system of airports. Suppose every city proceeded with a development of a highway system without any coordinated State and Federal system plan.

The system of airports is somewhat like a system of highways, except that they are connected; that is, the concrete portion is connected by a ribbon of airspace rather than a continuing ribbon of concrete. The purpose of the planning activity is the collection of the data on all of these airports, the anticipation of the requirement, and the identifying of the needs to meet these requirements.

These 177 positions are divided between Washington and the field. The majority of them are out in the field. The Washington headquarters organization only provides 22.

BASIS FOR SELECTION OF AIRPORT PROJECTS

Mr. EVINS. What is the criteria by which you determine whether a particular airport receives equipment X for safety as against another airport that does not receive it?

Mr. MORROW. This is sort of a Solomon job we have to go through every year when our requests are double the amount of funds we have available.

Mr. EVINS. Would you say it would be judged on the amount of public interest?

Mr. MORROW. No, sir.

Mr. EVINS. You do not consider the public interest?

Mr. MORROW. Maybe I do not understand exactly what you mean by the public interest.

Mr. EVINS. I thought everything was determined on the basis of public interest.

Mr. MORROW. If the public interest is consistent with the public need, then I guess it does.

Mr. EVINS. Need and interest would be the two criteria?

Mr. MORROW. Yes, sir.

Mr. HALABY. Wait a minute, Mr. Morrow. The word "interest" has a lot of connotation.

Mr. EVINS. Use the words "public interest."

Mr. HALABY. The public interest criteria for the granting of the funds are in the act; the Federal Airport Act sets forth a criteria. It also sets the State formula, which is based upon the geography and population, and then those criteria which the Agency applied are set forth in the Agency policies and regulations and they relate to the urgency and priority as between competing projects, since the demands are almost always twice what the funds are. The first criterion is safety and the second is efficiency of the operation of the airport, whether it is a new airport, expansion or improvement of an old airport.

Mr. EVINS. I asked the Corps of Engineers a similar question. They have thousands of projects in the pigeonholes. They come forward and recommend development of certain projects. I asked, "On which basis do you select certain projects to move forward and others to allow them to lie in the pigeonhole," and the answer was, "Public interest."

How much public interest is there in this project?

Mr. MORROW. We don't have that same situation.

Mr. EVINS. You do not consider the public interest?

Mr. MORROW. Yes, sir. I do not know what the Corps of Engineers meant by public interest. We do not have a pigeonhole of projects that we can pull out. The Federal aid to airports program is used as a grant-in-aid program to assist the local communities. The local communities have the literal control of the initiative, so that the participation of the Federal Government is in the area of assisting the local community to carry out its program rather than the Federal Government having control of the initiative.

STATISTICS ON ACCIDENTS

Mr. EVINS. Do you have any statistics as to where most of the accidents occur? I understand it is taking off and landing. It is at the airports.

Mr. MORROW. That is right.

Mr. HALABY. Mr. Moore can give you the breakdown of the accidents in the form of a pie chart, sir. They are primarily operational accidents. They are primarily in and around airports. We could, if you desired, with respect to air carrier accidents, give you these charts, which show that for jets, for example, 12½ percent are approach, 12½ percent landing, 12½ percent takeoff, 62 percent en route. On turboprop, on the other hand, 40 percent in approach, 40 percent in landing and only 20 percent en route; for the piston engine, 25 percent in approach, 33 percent landing, 12½ on the ground, 12½ taxi, 4 percent takeoffs, so that if that were desired for the

record it would be available and it shows that for the three categories most accidents are operational accidents in and around airports.

Mr. EVINS. Mr. Ostertag?

AIRPORT SYSTEMS PLANNING

Mr. OSTERTAG. Mr. Administrator, of course, your planning activities are directly associated with the grant-in-aid program. Isn't that correct?

Mr. MORROW. Yes, it is.

Mr. OSTERTAG. Does that mean that the FAA is responsible for the cost and development of all plans for airports?

Mr. MORROW. No, sir.

Mr. OSTERTAG. What is the relationship? Maybe you can clear that up.

Mr. MORROW. I think the use of the word "planning"—this does not necessarily mean plans for the airports.

Mr. OSTERTAG. Planning does not mean plans?

Mr. MORROW. No. This is the type of planning that is related, I suppose, to comprehensive metropolitan planning and systems planning, but it does include in our activity the approval of what is called master plans for individual airports, which is a blueprint type of layout of the airport, and it includes the investigation and approval of all of the airspace problems that may be associated with that airport or the configuration of the airport and the method on which that airport will be operated.

PENDING AMENDMENT TO FEDERAL AIRPORT ACT

Mr. HALABY. The new bill, as passed by the Senate last night and agreed with the House conferees, has a provision in it for advanced planning whereby 50 percent——

Mr. OSTERTAG. Sixty-six.

Mr. MORROW. Eligibility will be up to 50 percent for advance planning.

Mr. HALABY. It comprises at 50.

Mr. MORROW. And preliminary engineering of airport development.

Mr. HALABY. If anything we are going to push deeper into this planning activity.

Mr. OSTERTAG. That will come out of the airport grant fund.

Mr. MORROW. Yes; it is not part of this.

Mr. OSTERTAG. In other words, under the new arrangement the FAA will be responsible for 50 percent of the cost of plans, et cetera, but you still have the responsibility of approving them before any grants are made. Isn't that correct?

Mr. MORROW. That is the main purpose of that provision; to give us that capability.

Mr. OSTERTAG. Haven't you had capability before, or responsibility, or the authority for approving plans?

Mr. HALABY. Yes, sir; for approving.

Mr. OSTERTAG. Doesn't that come under this?

Mr. HALABY. But not for financing half of their planning money. We haven't had that before.

Mr. OSTERTAG. I understand that. I mean haven't you been responsible for approving the plans before and doesn't that come directly under this aspect of administration?

Mr. MORROW. Master plan approvals have been our responsibility and part of this appropriation covers the administrative activities in connection with that.

The actual work by the engineer firms or the consultants or the cost of preparing detailed construction plans is not part of this. This is only FAA costs. There are no costs of the local community or the costs of their contracts under which the detailed construction plans are prepared. They are not included in here.

Mr. OSTERTAG. I understand.

Mr. MORROW. The purpose of the new provision in the act is to enable us to get better and more complete data in advance of making an allocation of funds, in order that both the community and the FAA can have more specific detailed information available as to the extent and costs of these projects.

The aviation systems have been advancing technologically at a terrafic rate and this has had a terrific impact on airports. Mr. Jonas mentioned airport standards. We are in a constantly changing technology. There is a constant change in the requirement for the standards to be upgraded, obsolete ones to be eliminated, new ones to be identified and developed. The same thing is true in the planning of airports. The airports are changing.

Mr. OSTERTAG. That is right, but the point remains that you have the responsibility and authority to approve any plans which might be associated with any airport development.

Mr. EVINS. In the applications submitted to them?

Mr. MORROW. Where Federal funds are involved; yes.

ALLOCATION FOR NEW AND EXISTING AIRPORTS

Mr. EVINS. How much of your funds are expended, Mr. Morrow, initially on development and how much are expended on subsequent improvements and later development?

Mr. MORROW. How much on new airports?

Mr. EVINS. Percentagewise? If you start a new airport or develop one that has been in existence for 20 years, how much is that?

Mr. HALABY. Let us take the last 3 years. I think we have had about——

Mr. MORROW. 294 new airports.

Mr. HALABY. The total funds for the last 3 years has been about $190 million, something like that. We have had how many new airports?

Mr. MORROW. 294 new public airports, but I want to identify.

Mr. HALABY. Just the ones we have aided, 294.

Mr. MORROW. That is what I am talking about.

Mr. HALABY. And then the number we have improved is about——

Mr. MORROW. I can tell you exactly how many.

Mr. EVINS. You said about 1,600.

Mr. MORROW. That is the total since the program started in 1946. In fiscal year 1962 program we had 327; in 1963 we had 426.

Mr. EVINS. These are improvements?

Mr. MORROW. Total projects. We had 426 in 1963; in fiscal year 1964 we had 452. When we add that up we get, out of more than 1,200 projects in the last 3 years, 294 have been new public airports.

Mr. HALABY. About 25 percent.

Mr. MORROW. The largest number was in fiscal year 1964, which was the most recent program, where there is 121 new public airports, out of 452 projects.

Mr. EVINS. After the airport is built and you have made the grant it is not the Federal responsibility to maintain it?

Mr. MORROW. We do not maintain it; no, sir. We give no Federal funds for maintenance, only for development to meet increased operational requirements or to expand the capability of the airport.

Mr. EVINS. The point I am trying to find out: Are you spending money to make the big bigger or are you developing new ones?

Mr. HALABY. About 25 percent for new ones and of the total number of active commercial transport fields, roughly 700, most of them are smaller, medium-sized airports. There are only 62 big airports in your sense of the word; that is, 62 airports are used by the big jets.

Mr. OSTERTAG. Where you have facilities associated with airports do you compensate the local airport for space and other usage?

Mr. MORROW. At some airports where the Federal aid program was used to develop the terminal building or other buildings on the airport, we are accorded free rent, but since 1961 there have been no Federal funds available for the development of terminal buildings or similar facilities on an airport and in those cases we have to rent the space. The extent of that I am not acquainted with, just how much it is, but we do not get free space in terminal buildings any more.

GRANTS-IN-AID FOR AIRPORTS

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities: Grants for construction of airports (total obligations) (object class 41)	10,098	3,272	
Financing:			
Unobligated balance brought forward (contract authorization)	−13,370	−3,272	
Unobligated balance carried forward (contract authorization)	3,272		
New obligational authority (contract authorization)			

Status of unfunded contract authorization

[In thousands of dollars]

Unfunded balance brought forward	47,000	27,000	7,000
Unfunded balance carried forward	−27,000	−7,000	
Appropriation to liquidate contract authorization	20,000	20,000	7,000

Mr. EVINS. Next we will turn to grants-in-aid for airports, liquidation of contract authorization. Mr. Reporter, place in the record pages 481 and 482.

(The pages follow:)

Summary of appropriation requirements

Appropriation, 1964 (regular bill)				$20,000,000
Net difference—1965 over 1964:				
Activity	1964 appropriation	1965 estimate	Difference, increase (+) decrease (−)	
Liquidation of prior year contract authorization	$20,000,000	$7,000,000	−$13,000,000	−13,000,000
Total estimate of appropriation, 1965				7,000,000

GRANTS-IN-AID FOR AIRPORTS (LIQUIDATION OF CONTRACT AUTHORIZATION)

The Federal Airport Act, as amended in 1955, provided for contract authorization of $42.5 million for fiscal year 1956 and $63 million for each of the succeeding fiscal years 1957 through 1961. Under these authorizations the FAA provides grants to public agencies to assist them in the development and improvement of a national system of airports to serve civil aviation.

To pay obligations incurred under contract authorization provided by Public Laws 211 and 86–72, $7 million will be required for fiscal year 1965. This estimate provides for the payment of Federal matching funds to public agencies for airport construction projects undertaken in line with grant agreements entered into under prior contract authority.

Under contract authority provided in these two public laws, total obligations under the Federal-aid airport program by the end of fiscal year 1964 are estimated to reach $357,500,000. Since inception of contract authorizations in fiscal year 1956, total cash appropriated through fiscal year 1964 for the liquidation of obligations entered into under this authority amounts to $350,500,000. At the end of fiscal year 1964 the unliquidated obligations will amount to $25,338,500. It is estimated that for fiscal year 1965, an additional liquidation appropriation of $7 million is required to pay outstanding obligations. This will complete funding requirements for liquidation of contract authorization under the grants-in-aid for airports program.

	Cumulative through 1964	1965 estimate	Total
Contract authorization	$357,500,000		$357,500,000
Obligations	357,500,000		357,500,000
Expenditures	332,161,500	$25,300,000	357,461,500
Liquidation cash appropriated	350,500,000	7,000,000	357,500,000

Mr. EVINS. This is repeating what we said earlier. For 1964, $20 million was appropriated. Next year you estimate your needs will be $7 million. There is a $13 million decrease to carry out your contract authorizations. These are contracts that have been entered into and Uncle Sam has to live up to his obligations under the contracts.

Mr. MORROW. One thing, Mr. Chairman——

Mr. HALABY. This is the old program.

Mr. MORROW. This finishes it.

FUNDING FOR PRIOR CONTRACT AUTHORIZATION

Mr. OSTERTAG. This will finish the liquidation of contract authority under the old program and is not directly associated with the proposed supplemental?

Mr. HALABY. These are just liquidation of contracts made under the program prior to fiscal year 1962. This completes, you might say, the 1946 to 1961 program and this does not bear upon the extension of the Federal Airport Act at all. When that act is passed, as we hope it will pass in the House shortly, we would then come to the committee with a supplemental estimate of $75 million for this year and a forward funding amount of $75 million for next year, as we did in fiscal year 1962.

We are not yet formally in that position, although we have shown in these budget figures what would be requested.

Mr. OSTERTAG. In other words, you need $7 million to complete your obligations under the old program.

Mr. HALABY. That is the 1946-to-1961 program.

Mr. OSTERTAG. But as you find yourself today, you anticipate asking for a supplemental for fiscal year 1964 of——

Mr. HALABY. Fiscal year 1965. We already have 1964.

Mr. OSTERTAG. In other words, it will supplement this appropriation?

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. Not one that has already been enacted?

Mr. MORROW. No, sir.

Mr. HALABY. The President will request, sir, a new obligational authority of $75 million for fiscal year 1965, and $75 million for fiscal year 1966, so that there is a 2-year forward funding period.

Now, the expenditures for 1965 out of the program that you voted prior to fiscal year 1962 will be $25 million and the requirements for liquidation of the old 1946-to-1961 program will be $7 million. Those are expenditures that are shown on page 482.

ADVANCED FUNDING FOR AIRPORT PROGRAM

Mr. OSTERTAG. We have always provided funds in advance in order that you can program your requirements in an orderly and efficient manner.

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. That is the reason we gave you 2 years of funds instead of one at first.

Mr. HALABY. Yes, sir.

Mr. MORROW. The first year was 2 years. Then we got 1 year each year after that.

Mr. HALABY. We requested 5-year contract authorization and you gave us 3-year authorization and 2 years' forward funding. We hope you will continue that practice. It is the minimum period in which not only the Federal Government but the local government can plan and finance.

Mr. OSTERTAG. We do not want you spending through the back door.

Mr. HALABY. That door is locked shut, I am sure.

SUPPLEMENTAL BUDGET REQUEST

Mr. OSTERTAG. The point is you are going to ask for a supplemental of $75 million. That is all you will have for 1 year. You are going to ask for $75 million more on top of that. When will you do that?

Mr. HALABY. This year.

Mr. OSTERTAG. Then you are going to actually ask for $150 million?

Mr. HALABY. But $75 million of it can only be obligated in fiscal year 1966.

Mr. OSTERTAG. That is the point.

CONTRACT AUTHORIZATION AND OBLIGATIONS

Can we put this table on 483 in the record?

Mr. EVINS. Yes.

(The page follows:)

Grants-in-aid for airport program

CONTRACT AUTHORIZATION AND OBLIGATIONS

Fiscal year	Contract authorization	Obligations	Cumulative unobligated authorization
1956	$42,500,000	$9,205,897	$33,294,103
1957	63,000,000	37,491,306	58,802,797
1958	63,000,000	63,922,493	57,880,304
1959	63,000,000	72,956,360	47,923,944
1960	63,000,000	82,202,876	28,721,068
1961	63,000,000	73,783,676	17,937,392
1962		4,567,223	13,370,169
1963		10,097,817	3,272,352
1964 (estimated)		3,272,352	
Total	357,500,000	357,500,000	

APPROPRIATIONS AND EXPENDITURES

Fiscal year	Liquidation cash appropriated	Expenditures	Cumulative unliquidated obligations
1956			$9,205,897
1957	$30,000,000	$9,355,733	37,341,470
1958	25,000,000	33,767,442	67,496,521
1959	48,000,000	50,504,604	89,948,277
1960	57,500,000	55,720,204	116,430,949
1961	80,000,000	64,215,753	125,998,872
1962	70,000,000	56,844,715	73,721,380
1963	20,000,000	26,753,048	57,066,149
1964 (estimated)	20,000,000	35,000,000	25,338,501
1965 (estimated)	7,000,000	25,360,000	38,501
Total	357,500,000	357,461,499	
Estimate, 1965		7,000,000	

STAFF AND SUPPORTING SERVICES

Mr. EVINS. We will insert in the record pages 495, 496, and the table on the top of 497.

(The pages follow:)

Staff and supporting services

	1964 appropriation		1965 estimate	
	Positions	Amount	Positions	Amount
Staff services:				
Executive direction	135	$1,750,000	135	$1,808,000
Area management and coordination	62	871,000	62	913,000
Information services	57	654,000	57	694,000
General aviation affairs	15	215,000	15	226,000
Management services	1,696	15,806,000	1,612	16,240,000
Personnel	509	4,839,000	502	5,136,000
Compliance and security	86	999,000	98	1,130,000
General Counsel	179	1,937,000	173	2,045,000
Budget	146	1,633,000	141	1,700,000
International aviation affairs	77	1,082,000	62	993,000
Policy development	19	424,000	19	501,000
Appraisal	10	184,000	10	192,000
Regulatory council	15	234,000	16	255,000
Total staff services	3,006	30,628,000	2,902	31,833,000
Supporting services:				
Interfunctional	42	11,945,000	42	12,458,000
Operation and maintenance of plant facilities:				
NAFEC	295	1,874,000	274	1,973,000
Other (Aeronautical Center, Ft. Worth and Miami Reservations)	265	1,969,000	271	2,148,000
Total supporting services	602	15,788,000	587	16,579,000
Total staff and supporting services	3,608	46,416,000	3,489	48,412,000
Distribution to direct activities:				
Traffic control	1,036	13,532,000	1,015	14,237,000
Installation and technical support	345	4,506,000	338	4,742,000
System maintenance	951	12,416,000	931	13,064,000
Flight standards	502	6,554,000	490	6,895,000
Medical standards	55	708,000	55	758,000
Airports	180	2,347,000	176	2,469,000
Research direction	539	6,353,000	484	6,247,000
Total	3,608	46,416,000	3,489	48,412,000

Staff and Supporting Services

The items financed under this heading consist of two major programs which are prorated to each major activity and justified therein. The first is for certain direct costs of operation which are included under "Staff and supporting services" as they can be more effectively managed as a single program. These costs are primarily for rents, communications, administrative supplies, printing services and other joint-use items at our headquarters locations including Oklahoma City.

Secondly, this program provides staff and supporting services to all of the major operating programs of the Agency, except the National Capital airports. This activity includes executive direction, area management, information services, general aviation affairs, personnel, compliance and security, budget, international aviation affairs, general counsel, policy development, appraisal, regulatory council, and management services which provides accounting, auditing, management analysis and operations research, and administrative services. These programs, which are wholly financed within the operations appropriation, provide the staff function and support services required by the programs financed from the appropriations for operations, facilities and equipment, research and development, and Federal-aid to airports.

In 1965 the staff and supporting program, including only the usual housekeeping and administrative-type functions, represent 4.5 percent of the total of all Agency appropriations receiving services from this program.

Fiscal year 1965 funding requirements for staff and supporting services are summarized as follows:

	1964	1965	Difference
Positions	3,608	3,489	−119
Amount	$46,416,000	$48,412,000	+$1,996,000

For the total Agency staff and supporting functions, the 1965 estimate represents a reduction of 119 positions, coupled with a requested increase of $1,996,000. This change reflects a net decrease of 174 positions and $853,000, resulting mainly from staffing reductions. This decrease has, however, been offset by required program increases of 55 positions and $2,849,000 required for salary increases resulting from implementation of Phase II of the Salary Reform Act of 1962, added cost of within-grades, additional costs of an increase in average employment and some new program cost associated mainly with space costs.

	Positions	Amount
New program	55	$2,011,000
Phase II pay increases		618,000
Other pay adjustments		220,000
Other cost adjustments	−174	−853,000
Total	−119	+1,996,000

Facilities and Equipment

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	12,789	13,413	14,859
	Positions other than permanent	407	425	439
	Other personnel compensation	970	985	1,035
	Total personnel compensation	14,166	14,823	16,333
12	Personnel benefits	1,000	1,030	1,147
21	Travel and transportation of persons	3,514	4,123	4,471
	Payment to interagency motor pools	134	151	154
22	Transportation of things	2,233	2,564	2,258
23	Rent, communications, and utilities	505	510	510
24	Printing and reproduction	143	160	150
25	Other services	10,423	16,622	8,549
	Services of other agencies	42		
26	Supplies and materials	3,853	4,550	3,200
31	Equipment	35,845	87,515	71,124
32	Lands and structures	14,356	24,762	19,280
42	Insurance claims and indemnities	6		
	Subtotal	86,220	156,810	127,176
	Deduct quarters and subsistence charges	4		
	Total obligations	86,216	156,810	127,176

KANSAS STATE UNIVERSITY LIBRARY
MAY 26 1964
MANHATTAN, KANSAS

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	2,168	1,925	1,925
Full-time equivalent of other positions	58	53	53
Average number of all employees	1,890	1,809	1,920
Employees in permanent positions, end of year	1,877	1,820	1,800
Employees in other positions, end of year	45	45	52
Average GS grade	8.7	9.1	9.1
Average GS salary	$7,282	$8,072	$8,187
Average salary of ungraded positions	$6,259	$6,154	$6,204

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Air traffic control centers:			
(a) Long-range radar	18,045	16,883	14,636
(b) Automation equipment	4,313	912	20,650
(c) Other center facilities	11,060	14,913	12,034
2. Airport traffic control towers:			
(a) Terminal area radar	8,774	18,511	19,068
(b) Other tower facilities	5,372	13,493	11,552
3. Flight service stations:			
(a) Domestic	4,402	4,320	8,556
(b) International	1,667	2,020	3,079
4. Air navigation facilities:			
(a) VORTAC	8,932	37,075	14,030
(b) Low/medium frequency facilities	602	866	923
(c) Instrument landing systems	5,501	4,634	4,586
(d) Approach lighting systems	3,664	4,703	3,991
(e) Intermediate fields	172	296	109
5. Aircraft and related equipment:			
(a) Facility flight inspection	2,096	9,416	747
(b) Training	1,364	6,301	
(c) Research support	8	1,390	
(d) Logistic, administrative, and other	1,744	613	929
6. Research, test, and evaluation facilities:			
(a) Buildings, construction and improvements	752	2,580	565
(b) Equipments	1,854	2,739	720
(c) NAFEC facilities imporvement program		6,031	5,715
(d) Equipment for field testing	3	1,740	
7. Housing, utilities, and miscellaneous facilities	5,891	7,374	5,286
Total obligations	86,216	156,810	127,176
Financing:			
Unobligated balance brought forward	−144,024	−182,808	−126,248
Unobligated balance carried forward	182,808	126,248	74,072
New obligational authority (appropriation)	125,000	100,250	75,000

Mr. EVINS. We will turn to Book No. II. We will place in the record pages 501 through 508 under the appropriation for "Facilities and equipment."

(The pages follow:)

Summary of appropriation requirements

Appropriation 1964 (regular bill) $100,250,000
Net difference—1965 over 1964:

Activity	1964 appropriation	1965 estimate	Difference increase (+) decrease (−)	
Long-range radar	$10,183,000	$3,220,000	−$6,963,000	
Automation equipment	265,000	33,066,000	+32,801,000	
Other center facilities	3,953,000	634,000	−3,319,000	
Terminal area radar	17,261,000	5,386,000	−11,875,000	
Other tower facilities	12,462,000	8,142,000	−4,320,000	
Flight service stations:				
Domestic	3,750,000	4,705,000	+955,000	
International	2,108,000	485,000	−1,623,000	
Air navigation facilities (VORTAC)	21,396,000	1,619,000	−19,777,000	
Low/medium frequency facilities	587,000	855,000	+268,000	
Instrument landing systems	1,817,000	2,461,000	+644,000	
Approach lighting systems	1,519,000	2,750,000	+1,231,000	
Intermediate fields	66,000		−66,000	
Aircraft and related equipment	11,480,000	1,979,000	−9,501,000	
Research, test, and evaluation facilities	11,764,000	7,500,000	−4,264,000	
Housing, utilities, and miscellaneous facilities	1,639,000	2,198,000	+559,000	
Total	100,250,000	75,000,000	−25,250,000	−25,250,000

Total estimate of appropriation, 1965 75,000,000

Facilities and Equipment

GENERAL STATEMENT

This program provides for the acquisition, establishment, and improvement of facilities comprising the air navigation and traffic control system as authorized under section 307(b) of the Federal Aviation Act of 1958.

It further provides for the construction of permanent support facilities at the National Aviation Facilities Experimental Center (NAFEC). Additionally, funds are included to procure equipment supporting the research and development effort. This equipment, along with the present equipment, will be installed in accordance with the NAFEC facilities improvement program.

This program also provides for the procurement of aircraft and related equipment required to continue facility flight inspection, flight training, research studies, and logistic support.

Although this budget continues the orderly expansion of the air traffic control system, the program presented is designed to meet only the more urgent needs of the air navigation system and traffic management activities with primary emphasis being placed on the introduction of a national system of radar alpha-numerics modification in the en route and terminal control areas.

The primary objectives of this program are:

1. Implementation of the first step toward the national airspace system by providing equipment which will display aircraft identity and altitude in alpha-numeric form directly on scopes used to control aircraft in the most heavily trafficked high altitude positive control areas and in three high density terminal areas.

2. Provision of FAA tower services at qualifying locations.

3. Acceleration of the program to convert flight service stations to unmanned limited remote communications outlets to provide a more economical operation while maintaining essential air/ground communications services.

4. Improvement of performance of instrument landing systems to permit authorization of lower minimums at major hub airports.

5. Provision of electronic and visual landing aids for locations under existing planning standards.

6. Procurement of avionics equipment required to continue facility flight inspection necessary in certifying the reliability of signals emanating from ground electronic equipment used in aids to air navigation; and procurement of aircraft, presently under lease, used for job performance and other flight functions.

7. Construction of permanent support facilities at the National Aviation Facilities Experimental Center, located at Atlantic City, N.J. This includes soil erosion control and construction of roads and streets, aircraft maintenance hangar and operations building, fire and crash station, fire pumphouse and reservoir, and central heating plant.

8. Acquisition of equipment for general purpose use in the support of the research and development program, including (*a*) replacement of obsolete display equipment—computer driven simulation environment; (*b*) additional beacon identity and altitude display buffer capacity, (*c*) procurement of avigation easements, and (*d*) correction of airfield wiring deficiencies.

The following table lists the major facilities funded and those budgeted in fiscal year 1965:

	Funded		Proposed fiscal year 1965	Total through 1965
	Through fiscal year 1963	In fiscal year 1964		
Provide alpha-numeric display in centers	----------	----------	10	10
Establish ATC towers	296	7	8	311
Provide alpha-numeric display in towers	----------	----------	3	3
Establish terminal VOR's	91	30	----------	121
Standard approach lighting systems	222	4	----------	226
Short approach lighting systems	6	----------	5	11
Visual approach slope indicators	53	----------	14	67
Runway end identifier lights	66	----------	17	83

Project	Locations unless specified [1]	Amount
1. Air traffic control centers	----------	$36,920,000
(*a*) Long-range radars:		
(1) Substitute Jackson, Miss., radar for Meridian, Miss., radar	1	202,000
(2) Improve ATC beacon systems	----------	3,018,000
Total	----------	3,220,000
(*b*) Automation equipment:		
(1) Provide alpha-numeric display, 4096 mode 3 A. & C. on bright displays	[2] 10	33,066,000
(*c*) Other center facilities:		
(1) Establish RCAG facility, Gooding, Idaho	1 (1)	77,000
(2) Improve ARTC center air/ground communications	50	325,000
(3) Provide resectoring of Atlanta ARTC Center	1	53,000
(4) Improve ARTC center operating positions	----------	179,000
Total	----------	634,000

Footnotes at end of table.

Project	Locations unless specified [1]	Amount
2. Airport traffic control towers		$13,528,000
(a) Terminal area radar:		
(1) Remote Travis AFB ASR to McClellan RAPCON	1	558,000
(2) Improve performance of ASR's	11	440,000
(3) Provide bright displays for operational evaluation	3	38,000
(4) Improve ATC beacon system		4,279,000
(5) Replace ARSR-1 consoles with ASR-4 consoles in IFR room, Atlanta, Ga	1	71,000
Total		5,386,000
(b) Other tower facilities:		
(1) Establish tower facilities	8	4,317,000
(2) Expand radar approach control, Bedford, Mass	1	193,000
(3) Relocate towers	5	3,510,000
(4) Provide local FAA phone system	8	78,000
(5) Replace obsolete voice recorders	6	32,000
(6) Install security fence (peripheral) El Paso, Tex	1	12,000
Total		8,142,000
3. Flight service stations		5,190,000
(a) Domestic:		
(1) Separate CS/T and establish FSS, Fairbanks, Alaska	1	353,000
(2) Relocate FSS's	11	1,448,000
(3) Convert FSS's to LRCO's	50	1,767,000
(4) Discontinue RCO's	3	29,000
(5) Establish a remote transmitter receiver facility, St. Louis, Mo	1	43,000
(6) Provide and relocate teletypewriters	45	508,000
(7) Improve FSS quarters		492,000
(8) Provide voice identification and automatic weather read-out for VOR	1	65,000
Total		4,705,000
(b) International:		
(1) Provide automatic error-correcting equipment (ARQ)	[3] 6	317,000
(2) Reimburse USAF for cryptographic equipment	4	109,000
(3) Provide teletypewriters at San Juan	1	29,000
(4) Improve IFSS receiver control station at Wake Island	1	26,000
(5) Increase transmission rate radioteletypewriter landline circuits	3	4,000
Total		485,000
4. Air navigation facilities		7,685,000
(a) VORTAC:		
(1) Provide VOR monitoring equipment	120 (1)	703,000
(2) Replace obsolete nonregulating amplifiers at VOR/VORTAC's	205	104,000
(3) Modernize VOR, Montebello, Va	1	9,000
(4) Install fan markers for VOR approaches	8	110,000
(5) Provide dual equipment at TVOR	3	223,000
(6) Relocate VORTAC facilities	2	470,000
Total		1,619,000
(b) Low and medium frequency facilities:		
(1) Dismantle L/MF facilities	40	299,000
(2) Provide improved TWEB coverage	33	562,000
(3) Relocate L/MF facilities	6	84,000
Total		855,000
(c) Instrument landing systems:		
(1) Improve ILS	14 (2)	1,591,000
(2) Provide far-field monitors for waveguide localizers	26 (1)	698,000
(3) Relocate ILS components	4	109,000
(4) Provide ILS monitor indicator units for IFR room	17	63,000
Total		2,461,000

Footnotes at end of table.

Project	Locations unless specified [1]	Amount
(d) Approach lighting systems:		
(1) Establish SALS/SFL	5	$713,000
(2) Establish VASI	14	892,000
(3) Establish REIL	17	377,000
(4) Backfit VASI with new regulators	40	228,000
(5) Backfit ALS/SFL with improved monitor control panels	212	406,000
(6) Establish cut reference lights, Juneau, Alaska	1	22,000
(7) Improved flush SFL fixtures	1	51,000
(8) New flash tubes (for SFL and REIL)	1	5,000
(9) Improved ALS flush lights	1	26,000
(10) Low-cost REIL	1	10,000
(11) Visual guidance monitor	1	20,000
Total		2,750,000
(e) Intermediate fields		0
5. Aircraft and related equipment		1,979,000
(a) Facilities flight inspection:		
(1) Signal Evaluation Airborne Laboratory (SEAL)		750,000
(2) Procurement of hangar, line shop, and test equipment		130,000
(3) Procurement of ILS/VOR test equipment		165,000
(4) Procurement and installation of Sel-Cal units in KC-135 aircraft		5,000
Total		1,050,000
(b) Logistic, administrative, and other:		
(1) Procurement of 8 light twin aircraft		929,000
6. Research, test, and evaluation facilities		7,500,000
(a) Buildings, construction and improvements		1,065,000
(b) Equipments		720,000
(c) NAFEC facilities improvement program		5,715,000
7. Housing, utilities, and miscellaneous		2,198,000
(a) Housing:		
(1) Construct and furnish living quarters	2	459,000
(2) Rearrange and expand living quarters, Drummond, Mont.	1	22,000
(3) Rehabilitate living quarters	6	106,000
(4) Relocate living quarters, Unalakleet, Alaska	1	20,000
Total		607,000
(b) Utilities and miscellaneous:		
(1) Provide resistance loads for standby engine generators	42	54,000
(2) Improve water supplies		270,000
(3) Surface and repair roads	2	134,000
(4) Improve sewer system, Cold Bay, Alaska	1	7,000
(5) Miscellaneous construction		84,000
Total		549,000
(c) Emergency projects: (1) Restore funds for emergency projects		1,042,000
Total		75,000,000

[1] Bracketed units represent requirements for training use at Oklahoma City. The bracketed units are in addition to the nonbracketed operational units, and are included in the dollar estimates.
[2] Centers.
[3] Terminals.

Mr. EVINS. You were appropriated for 1964, $100,250,000 and for 1965 you are estimating a need of $75 million, or $25,250,000 less.

This is broken down into facilities and equipment for long-range radar, from $10.1 million down to $3.2 million.

AUTOMATION EQUIPMENT

There is a tremendous increase for automation equipment, from $265,000 to $33,066,000, an increase of $32,810,000.

Mr. Administrator, you will have to do some talking on this.

Mr. HALABY. Yes, sir. I would appreciate a moment on that, particularly since some of the members were out of the room for a moment yesterday when we explained the need for this equipment.

I would like to just very briefly go over this item of automation equipment.

It is broken down on page 516 and subsequently. I am sorry to repeat for some of you, but at the moment our controller looks at a scope like that, all those little blips are aircraft and he sees them as a little bright bug going across the scope. He doesn't know what kind of aircraft, he doesn't know what the name and number of the aircraft is, he doesn't know its altitude, he doesn't know its position.

Over each one of those the controller puts a little shrimp boat that looks like this [indicating]. It is made of plastic. He takes off a written flight plan that is on another part of his console and he writes on there the number and altitude by that blip.

Now, the thing we have given him recently is that black, brighter light, which is either a single slash or a double slash, and then the controller can now interrogate the aircraft—the military aircraft and the Army aircraft—and then he knows positively what that blip is, whether it is an airliner, military, or a small plane. Then he asks them to confirm that they are at a certain altitude and if they are in fact at the altitude they say they are, he then writes down identification—Eastern Air Lines 503, 18, meaning 18,000 feet. That is all he has. That is why we have these near misses, because some of them are on flight plans, some of them are on military missions and there we have the conflictions.

We want to give him in addition to that identification, we want to give him identification plus altitude. We want it not on a little piece of plastic that an elbow can push off the scope, but electronically shown on the scope on an alpha-numeric basis. That is an alphabetical, numerical designation, United 456, 31,000 feet, going to 35,000. We think the controller must have that for all of these high-speed targets.

Now, you have funded us up through the two phases. You have given us the radars, you have given us the ability to read those beacons. Here is what we want, the automation equipment that is to be able to read the transmission from the aircraft as to altitude and identification.

That is what the $33 million is for. It is the most important breakthrough and step forward that the controller will have had since radar and the new centers and displays.

Now we go on from there to be able to track. You see that little square there and the little black line from United 456. That shows where he is going. That sort of anticipates for us where he is going to be, and then next, through the use of computers, we will be able, when we back up the controller with the computer capability, we will get on the scope not only where he is, who he is, what altitude he is, but where he is going, and whether there is going to be any conflict between his forecasted flight and someone else's. That comes later. That is not included in this budget. Only with this $33 million do we go on to that point, give him altitude which he literally gasps without.

We have all kinds of safeguards in here. We delay flights. We have a lot of extra communications. We do a lot of things that are undesirable, and at times, risky, without the altitude information.

It is true that the Budget Bureau has very substantially cut our

request for this appropriation. We would have liked to have put more of the automation and computing kind of gear into this budget, but it has been deferred to a subsequent year. We believe we could tolerate that.

NUMBER OF CENTERS PROVIDED COMPUTING EQUIPMENT

Mr. OSTERTAG. How far does this procurement take you?

Mr. HALABY. This takes us through identity code and altitude.

Mr. OSTERTAG. I mean, in the overall application.

Mr. HALABY. On page 518, it gives us some—I think we ought to use 516, 517, and 518; it provides 10 centers out of the intended, presently intended total of 21 centers, so it would be alpha-numeric generators in about half of the centers in our system.

If we go on as we intend to go on to the computerized system in all of the critical centers the next step is to go on from these 10 centers to additional centers in fiscal year 1966—the additional amount would be about $20 million.

COST OF AUTOMATION

We are still in line with the estimates we gave you 3 years ago. We said, based on the Beacon report, that it would cost something like a half billion dollars to automate or semiautomate our system.

Mr. OSTERTAG. That is the wrap-up figure and includes everything?

Mr. HALABY. Yes, sir. We are not telling you anything substantially new or different. It is just unfolding, wouldn't you say, Mr. Thomas, fairly much on the predicted schedule?

ROLE OF TRAFFIC CONTROLLER

For those of you who haven't ever been to a center you will see here what it would mean to these wonderful and often anxious men who control the traffic. Here is what he is seeing now: His microphone, his headset. He is speaking. He says, "Are you United at 31,000 going to 35,000," and United says, "Affirmative," so he feels reassured. But he has got this little plastic strip here following along this blip. Here is where we want to take him with these bright displays, and in some of our new centers we have this improvement. Then finally we want to get him down here, not with this little shrimp boat, not with this two-way conversation, which sometimes breaks off, due to atmospheric conditions, but we want him to be positively identified as to altitude, as to type of aircraft and follow him with this capability. Then later, down here in fiscal year 1966, 1967, or 1968, the computer would compute the future course of his flight.

ALTITUDE AND IDENTIFICATION EQUIPMENT

Mr. JONAS. How will you feed that information into the computer?

Mr. HALABY. The aircraft owner will buy the gadget that we showed you yesterday, an altitude and identification transmitting transponder. It will constantly send that single signal to us on the ground and it is in the devices on the ground that we put the money and they read out and generate into the tube and then display on the scope all of that information.

Later, when we are fully computerized, it feeds into the computer both radar video and that data from the transponder. The computer stores it in the memory, feeds it out and gives this controller a prediction of things to come. He can interrogate the computer at any time.

Mr. OSTERTAG. Are they required to have these instruments?

Mr. EVINS. Not at the present time.

Mr. HALABY. At the present time the military require of their aircraft and the airlines are required to have them under this condition: When they enter the airspace above 24,000 feet over the continental United States, where we have what we call an area of positive control, they are required to have them. As a matter of fact they voluntarily installed them because it is such an aid to the controller, it is such a reassurance to them.

When we come down to 18,000 feet area of positive control, there is a new class of owners that would need to buy them and those are the high priced, high speed, high altitude business aircraft.

Mr. Jonas and I were discussing the first day about whether the small plane pilot would be forced to buy these and I explained, that is far off. We have the equipment developed. We would not require it, except in the highly congested areas of area positive control and someday, not tomorrow, they will be required as the price of going on the high speed system to buy this so that it can transmit their position, altitude, and identity to the ground.

PRIORITY FOR INSTALLATION

Mr. OSTERTAG. Until you have provided and installed this equipment across the board, of course there will be only certain locations where it could be used.

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. There would be no point in requiring an airline or an aircraft to provide the responding equipment if they are not associated with the locations. Isn't that the truth?

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. So this is a matter of progression?

Mr. HALABY. It is a matter of progression. I just hope that our friends in aviation will trust us to do it gradually and deliberately.

Here is the highly congested traffic area of the United States and so we are installing this, quite logically, in those areas where there is the densest high-speed, high-altitude traffic, so if you give us this money, we can give the controllers in these centers—Oakland, Los Angeles, Kansas City, Chicago, and so forth, the alpha-numeric capability first.

Mr. OSTERTAG. You picked out the largest centers?

Mr. HALABY. We picked out the ones that have the most urgent need for it.

PROCUREMENT OF EQUIPMENT

Mr. JONAS. You invited our attention to page 518. I would like to ask you—surely I am misinterpreting this table showing large sums amounting up to $29 million. They are under a tab saying "Washington office." You don't mean what that seems to say, do you?

Mr. HALABY. That is the part of the Agency that buys the equipment. In other words, the procurement headquarters is in the Washington office.

Mr. SHANK. This would be a single, centralized procurement.

Mr. OSTERTAG. Why do you break it down that way? I would think that what the figure shown under the Washington office is would be in the other column.

Mr. HALABY. This could easily be stated to be "Equipment and installation." In other words, "Field" is the amount of money they need in the field to install and check out the equipment; "Washington office" just happens to be the location of the procurement headquarters.

This equipment, which Mr. Warren and Mr. Blatt have here in a circuit diagram would all be bought centrally by our procurement officer, Mr. Leng, in Washington. It would be delivered to the field and installed there, so the "Washington office" column means the procurement cost of $29,282,000; the "Field" column of $3,784,000 is what is spent at the site in these 10 locations in the field.

Mr. OSTERTAG. Out of the $33 million, $29 million is procurement?

Mr. HALABY. Yes, sir.

Mr. JONAS. That is satisfactory. I was scared for a minute.

Mr. OSTERTAG. Would that be a single contract that would have nationwide application? Explain that further.

Mr. HALABY. Sir; if you will look at that for 1 second, it is very complicated. I hate to go into such great detail, but you will see there a kind of circuit diagram.

The alpha-numeric generator, the computer, module, the beacon digitizer and the input modules would be part of a single subsystem that would probably be bought from a single contratcor. Is that not correct?

Mr. SHANK. No, sir. It will involve at least three.

Mr. HALABY. At least three contractors. You see, we already have the scan converter and the decoder. We have already got the display that the man is sitting in front of down at the bottom, but we need this beacon monitor panel, which I guess would be purchased from——

Mr. SHANK. Probably one of the companies that has been developing it.

Mr. HALABY. But it would be one of the three or a fourth contractor?

Mr. SHANK. That will be the third.

Mr. HALABY. That will be the third of the four contractors. These are already under development and have had a lot of work done on them.

Mr. BLATT. They have had evaluation.

Mr. OSTERTAG. Is that all under research?

Mr. HALABY. Yes, sir. Over these last 3 years.

Mr. BLATT. This is a product of it.

Mr. OSTERTAG. Mr. Chairman, I would suggest we include at this point in the record pages 516 and 517, which explain the problem, consequence, and solution.

Mr. EVINS. Those pages may be included in the record at this point.

(The information is as follows:)

AUTOMATION EQUIPMENT

Provide alpha-numeric display—4096 Mode 3 A. & C. on bright displays, 10 centers, $33,066,000. Typical system cost, $720,000.

BASIS

FAA implementation of Project Beacon report which recommended, in part, with regard to en route control areas: (a) "The radar display and radio communication with pilots should be the primary tools used by the controller of IFR and CVR en route traffic. The radar display would show the video from radar or beacon, and in alpha-numeric symbols, the identification and altitude of aircraft," and (b) "With continuously displayed position information and provisions for radar and computer aided handoff, together with the customary flight plan, only infrequent communication with the pilot should be required." This program is the first implementation of the above system improvements.

STATUS

Programed through fiscal year 1963, none; programed in fiscal year 1964, none; proposed in fiscal year 1965, 10.

PROBLEM

In the present mode of operation, a movable plastic marker containing the required data for a particular aircraft is placed on the flat surface of the horizontal radar display and manually moved across the display to keep the marker associated with the radar target. At center operating positions where only vertical displays are used, the controller mentally associates the radar target appearing on the display with information appearing on a flight progress strip adjacent or near the display. The aircraft identity and the assigned or verbally reported altitude is marked on the plastic marker and the flight progress strip. The altitude is updated as required by manually changing the figures. This results in increased concentration and attention by the controller thereby limiting or reducing his available time for performance of his primary air-traffic-control functions.

CONSEQUENCE

As long as the controller must correlate aircraft identity and altitude by manual means, his availability for performance of his primary control functions will be limited. In the present manual system a number of traffic control incidents and near misses are caused by misidentification, altitude error or confusion, coordination errors, and position errors or confusion. Specifically, there were 99 "near misses" reported by pilots in the en route control area above 24,000 feet during calendar year 1962. In addition, there were 40 control errors reported in this airspace which resulted in aircraft being separated by less than approved minimums. Of these, 43 percent involved misidentification on the part of the controller and, over all, detailed analysis revealed that 80 percent could have been avoided had radar beacon alpha-numeric been available to the controller. Also, in the present system, users experience a significant economic penalty when the flight path between two points is increased because of inability of the present system to provide the controller with continuously current three-dimensional information on aircraft population in his area of jurisdiction. As a result, aircraft are often needlessly vectored around unknown targets.

SOLUTION

The proposed system provides for identification and altitude of mode A. & C. transponder-equipped aircraft to be displayed in alpha-numerics adjacent to the radar target on controllers' displays. This information will remain in correlation with the associated radar target as it progresses across the scope. The equipment basically consists of a digitizer, computer, and alpha-numeric generator. The computer will provide the alpha-numeric generator with information which will result in the generation of aircraft identity and altitude information in a form which can be displayed on the radar display adjacent to and associated with the beacon radar target. In addition to providing the controller with positive, continuous identification of beacon-equipped aircraft, other sig-

nificant benefits accrue; e.g., reduction in volume of pilot/controller air/ground communications because identification is automatically maintained and altitude information is automatically reported; provides for better utilization of airspace by eliminating the need for reserving blocks of airspace for training and test activity; significantly reduces the amount of coordination between controllers; and, reduce the propensity for error and the time required to execute transfer of control (radar handoff) between controllers, because identity and altitude in association with the radar target is displayed on all cognizant scopes.

The selection of place-name locations for inclusion in the fiscal year 1965 program provide for radar beacon alpha-numeric implementation in those areas of highest traffic density and the greatest number of ATC incidents and near collisions. It also takes into account the Agency installation capabilities on a regional basis and therefore the order listed below may require modification to provide plan continuity (avoid islands) and to accommodate regional capabilities. Another premise used in the plan provides that if one radar in a center area is required, all radars in that center will be equipped with the beacon alpha-numeric capability. This is in the interest of standardization and to avoid confronting controllers with grossly different equipment capability and operating equipment at different center positions.

Our decision to begin this program in the high-altitude airspace is based on the fact that the users operate aircraft with the greatest performance capability, the heaviest per unit financial investment, and, in the case of passenger-carrying airplanes, the largest potential risk in terms of lives and equipment in the event of airborne collision. Further, these users have agreed with our determination that radar beacon is the logical way of reducing the potential risk, and have expressed willingness to equip their aircraft with the required airborne equipment.

ARTC centers	Number of radars	Estimated cost		
		Installation	Equipment	Total
California:				
Los Angeles	6	$296,000	$3,356,000	$3,652,000
Oakland	6	302,000	3,950,000	4,252,000
Colorado: Denver	6	296,000	3,374,000	3,670,000
Florida: Jacksonville	4	270,000	3,043,000	3,313,000
Georgia: Atlanta	4	270,000	2,534,000	2,804,000
Illinois: Chicago	5	279,000	2,647,000	2,926,000
Missouri: Kansas City	4	266,000	2,464,000	2,730,000
New York: New York	4	264,000	2,412,000	2,676,000
Ohio: Cleveland	4	777,000	3,090,000	3,867,000
Washington: District of Columbia	4	764,000	2,412,000	3,176,000
Total	47	3,784,000	29,282,000	33,066,000

USE OF AUTOMATION EQUIPMENT

Mr. WYMAN. You must have come up with the conclusion there were some pretty serious gaps or potential gaps in security at these flight levels to warrant your recommending the installation of this equipment; is that right?

Mr. HALABY. Yes, sir. We went over yesterday the number of critical verified near midair collisions, which is one measure of the risk, as you say, a gap in the security. What I think is the important thing for the committee to understand, and I hope be convinced of, is that we are putting too much of a load on the individual man in the system. We ought to transfer some of that load to the machine—not all of it—because the man must continue to make final decisions; but we ought give him the mechanization and the semiautomation that puts some of the load on the system, not just on the nerves and mind and memory.

Mr. WYMAN. With his equipment now, after he verifies the altitude—does he just figure the bugs on the screen are approaching each

other and there might be a collision and then by manual contact with the operator of the plane, et cetera, tell them what to do? Is that how he manages the situation now?

Mr. HALABY. His problem is most often where there is uncontrolled VFR traffic mixing with controlled IFR traffic. There he doesn't even know what kind of aircraft it is or what altitude or what direction he is flying the uncontrolled aircraft. He does have a flight plan for the IFR aircraft. His second problem is as between two IRF aircraft where he must check and doublecheck and triplecheck to assure that the flight plans as filed do not conflict and as actually made good do not conflict. Is that an accurate statement, Mr. Thomas?

Mr. DAVID THOMAS. Yes, sir. In addition, on this present system, we had one yesterday, as a matter of fact, where the assistant controller copied down incorrectly 20,000 for 22,000 and passed it on to the controller. He looked at the two aircraft. There apparently was adequate separation, 2,000 feet between them, where, as a matter of fact, we were fortunate that here there was a lateral separation between them, but not actually altitude separation.

This new system would give the controller automatically, directly from the altimeter of the airplane what the altitude is without this chance of human error.

We have had situations where just the microphone cord had moved one of these little plastic slips, the plastic shrimp boats and then a human picked it up and reattached it to the wrong blip. We had a radar misidentification. This is the only sure way we know of passing through all the human hands and coming up with the right altitude on the right airplane.

Mr. WYMAN. This system applies, regardless of weather conditions?

Mr. DAVID THOMAS. The system would operate, regardless of weather conditions. He would always get this information from the equipped airplanes. We would still leave a great deal of the airspace free that would not require either the equipment or the flight plan, so there will be some VFR operations in it, but it will help the controller greatly by sorting out those who are equipped and are known from the unknowns.

Mr. HALABY. The most dramatic case, Mr. Wyman, in recent experience, was in December 1960. A TWA Constellation, turning to land on course at La Guardia, a United DC–8 descending over New Jersey. He had been given instructions to hold at a certain electronic fix. He passed through that fix and rammed the TWA on course into La-Guardia.

The LaGuardia approach controller saw a blip coming, but he didn't know but that it was at 35,000 feet, going right over LaGuardia. He didn't realize that it was coming down to about 2,500 feet and ram this airplane.

That is one situation where, if both of those controllers, the New York Center controller and the LaGuardia controller, for example, knew what this alpha-numeric generator would show them, we would have had a completely different situation.

To sum up on it, one function is identification. At present it is manual. If you give us this money it would be automatic.

The second function: If the radio fails, there is a complicated procedure that most private pilots don't even remember about making turns and doing a lot of things for identification. Here you would have what we call beacon tracking to tell us where the airplane is.

The altitude reporting is the third function. Now it is by voice. There are often a babble of voices in the late afternoon in these busy areas. It would be automatic under this scheme. The display filter is now coarse. It would be fine grain for a much clearer presentation to the controller. The radar handoff is now by voice. It would be semiautomatic, as these controllers watch these identified altitude confirmed blips going across.

The cruise climb condition is now stepped. Climb to 32,000 feet and hold. Then 34,000. We could make it a continuous climb and save time and fuel.

The flight tests are now made by reserving huge blocks of airspace. Under the new system it can be monitored by continuous tracking, without tying up nearly as much airspace.

Traffic advisories now are quite inefficient. Here we can reduce the number of radiovectors with this equipment. Finally, you get rid of this absolutely essential but primitive shrimp boat. You go from manual to automatic identification.

Finally, Mr. Chairman, it isn't something we have just dreamed up in the last year. This is a logical, deliberate progression from where we said we would be 3 years ago to where we want to be in a couple of more years.

Mr. Evins. On that point I think we had better adjourn until about 1:15.

AFTERNOON SESSION

Mr. Evins. The committee will come to order.

We will resume consideration of the facilities and equipment budget.

UNOBLIGATED BALANCE—FACILITIES AND EQUIPMENT

The Administrator was explaining the need for the automated equipment. I wanted to point out that our records show you have $126 million in unobligated carryover in 1965.

Mr. Halaby. Yes, sir; I am going to ask Mr. Leng to give you his analysis of the carryover and his programed use of it and his estimated end of year 1965 amount.

Mr. Leng?

Mr. Leng. Yes, sir. We have taken the carryover that we had and it was sort of a planned carryover because one of the big items was the procurement of Tacan. Our contractor had been very, very late in delivering and we did not want to give another contract at the time, so of all the single items, that is probably the biggest item that was included in the carryover. We have taken this figure of the carryover and split it down into each and every item and have a planned expenditure this year in the air navigation facility part of it of approximately $126 million. The aircraft and R. & D. expenditures will bring the figure up to $156 million.

Mr. Evins. Do you consider commitments and obligations for all of this amount in the next year?

Mr. Leng. Not within the next year, because on the full-funding basis some final installation programs spread over a 4-year period, but the vast majority of this will be in this fiscal year.

ESTIMATES OF AUTOMATED EQUIPMENT

Mr. EVINS. One further question: How firm are the estimates of this $33,066,000 for your automation equipment? Have you checked this out with a lot of suppliers or is there only one or two suppliers?

Mr. LENG. We are attempting to get competition in every portion of it. We have broken this down by each center where this item is to go, specify how many of each item, and assume a complete degree of competition to the extent we can.

FAA SYSTEM VERSUS NASA SYSTEM OF CONTROL

Mr. EVINS. The centers for the NASA flight missile shots—this may be somewhat far fetched—but these centers to my mind are amazing in that they can tell you to the precise moment and location as to where a missile is going to come down in the Pacific or the Atlantic. The ships are all there at rendezvous to pick them up, after having been to the far distance of outer space.

Do you envision that your centers with this new equipment will in some way be comparable to this, in bringing down and assisting in bringing down safely aircraft in flight? Is it anyway comparable to the centers of our space centers?

Mr. HALABY. I would say that we have quite a different kind of system but that our radar, plus alphanumeric, plus computer backup being sufficiently precise to bring the airplane down to the approach in a satisfactory manner. When we get our all-weather landing subsystem added to that we will have a kind of tracking and flight navigating system that is very, very suitable. Of course, it wouldn't cost anywhere near per flight what space flight costs.

Now, Mr. Shank would add to that I am sure.

Mr. SHANK. The kinds of equipment we use tend to be somewhat similar; that is, the digital computer is common to both of the systems. We both use a great deal of radar equipment. We both use communications. They generally call it telemetering because in general there is not a man on both ends. It is only one end. The technology is quite common.

There is one really large difference and that is that what NASA does is very precise control. When we talk about the FAA control, it is really a comparatively less precise tracking and identification of the aircraft designed to help him to destination and avoid conflicting traffic.

Mr. EVINS. There is a difference but there is a comparable situation. There is some degree of comparability?

Mr. SHANK. There is some comparability, yes. We try to find out and help him do something, whereas in the NASA case they preplan it, carry it out to meticulous detail and if it departs by a very small fraction, then it is a failure.

NUMBER OF CENTERS TO BE PROVIDED AUTOMATED EQUIPMENT

Mr. EVINS. Mr. Administrator, in how many centers would this $33 million worth of equipment be located?

Mr. HALABY. This $33 million would be in 10 of our intended 21 centers, so it is about half of the ultimate requirement.

Mr. SHANK. It is somewhat more than half of the radars. We picked the centers in such a way as to get 47 of the radars, and there are about 81 total.

FUTURE REQUIREMENT FOR AUTOMATED EQUIPMENT

Mr. EVINS. Does this mean in a subsequent budget we may anticipate another $30 to $35 million request for other centers for similar equipment?

Mr. DAVID THOMAS. Mr. Chairman, we would expect to complete the high-altitude portion that we are planning here, with about $20 million more making a total of $53 million to equip all the radars and centers in the United States at the high altitude. As we add control areas at lower altitudes, provide more coverage, there will be additional costs in forthcoming years.

Mr. EVINS. Is this already in the planning stages within the agency?

Mr. DAVID THOMAS. Yes, sir.

Mr. HALABY. Ever since we came in 3 years ago we have had a single goal and a developing design and each year as we have come before you we have presented what we have learned during the previous year. It is all within that total general plan.

This morning I pointed out that the Budget Bureau deferred some of the research and development and deferred some of the facilities and equipment into fiscal year 1966. We have accepted that. We believe we can live with it.

Mr. JONAS. This was one of the items we were talking about the other day.

Mr. HALABY. Yes, sir. It accounts for the bulk of the difference between what we submitted and what the President allowed.

Mr. JONAS. Sort of a stretch out of the program over a couple of years.

Mr. EVINS. Mr. Boland?

COST OF INSTRUMENT LANDING SYSTEM

Mr. BOLAND. What is the cost of a radar approach system for an airport?

Mr. HALABY. The instrument landing system whereby the pilot approaches an airport by his instruments is called an ILS and the average installation cost is about $250,000. We believe as a result of work Mr. Blatt and Mr. Leng are doing we are going to be able to bring that down to around $100,000; but right now until we have proved out a new system we have worked on, it is around $250,000 to $275,000.

CRITERIA FOR INSTRUMENT LANDING SYSTEM

Mr. BOLAND. What criteria do you use for an airport to get this system or to come in on radar approach?

Mr. DAVID THOMAS. We have the criteria for the instrument landing system. This is a demonstrated need at a tower airport with at least 700 instrument approaches a year. As far as the radar approach is concerned, I believe this is now 50,000 instrument operations.

Mr. HARVEY. It is a hundred thousand itinerant operations and 20,000 instrument operations at an FAA tower airport having an instrument landing system.

Mr. BOLAND. Do you ever depart from this?

Mr. HARVEY. As part of the planning standard criteria, exceptions can be made if properly justified and approved. These have been very few and very rare.

Mr. HALABY. There are two different systems. One is instrument landing system, which is on the ground and the pilot uses his instruments to fly down, from the localizer, the gadget we showed you yesterday, and there have been recently a couple of cases where we are installing the new system, the experimental system on a limited basis while proving it out in practice.

COST OF RADAR APPROACH CONTROL

On the radar approach control, how many do we have total, Mr. Harvey?

Mr. HARVEY. Including the military RAPCON's, 114.

Mr. BOLAND. What is the cost of radar approach control? You say the ILS costs $250,000 to $275,000. You are working to get it down to $100,000. What does the regular radar approach cost?

Mr. HALABY. The ones we have at civil airports such as Washington National here——

Mr. BOLAND. I know. Just a small airport.

Mr. HALABY. About a million dollars.

Mr. BOLAND. I mean a much smaller airport.

Mr. HALABY. That would be an average installation.

Mr. HARVEY. It is in the neighborhood of $750,000 to $850,000 for a complete ASR installation.

Mr. HALABY. We have how many of those now?

Mr. HARVEY. We have 74 ASR's located at civil airports in the 50 States as of the end of this year. Additionally there are 40 RAPCON's and RAP-TCC—military radar surveillance systems jointly used by both the civil and military, making a total of 114.

Mr. EVINS. Mr. Ostertag?

Mr. OSTERTAG. No questions.

Mr. EVINS. Mr. Jonas?

Mr. JONAS. No questions.

Mr. EVINS. Mr. Wyman?

CONTROL OF AIR TRAFFIC

Mr. WYMAN. Following up what we discussed this morning, should you have this new type automation equipment in operation and a plane flies into the area to which it applies, is the pilot authorized or will he be authorized under your regulations to break the orders that he gets from the automated source should there be an emergency visible to him?

Mr. HALABY. Federal air regulations provide that a pilot may at any time declare an emergency in flight and if requested by the Administrator must supply a statement of facts concerning the reasons and conditions for declaring an emergency.

Mr. EVINS. Very good.

Mr. HALABY. The occasions when a pilot refuses to accept a clearance or a vector are very rare. There are mavericks in the air, as in other areas of human activity, and sometimes they speak back to the controller by saying, "I will fly the airplane. You fly the radar." It is "needling" and it occurs occasionally. It is unfortunate. Sometimes it is an irritable person. Sometimes our controller may have brought it on a little bit. But we have been very active in the last year in particular, working with the pilot groups to get them to understand why these vectors are necessary. They do not have to accept them. They can declare an emergency, or they can say, "Prefer heading of 30° to the left," and, if there is no traffic conflict the controller will say, "You are cleared for 30° to the left."

These are occasions where the pilot on his radarscope may see a thunderstorm cell and prefer to go farther away from it. So there is a cooperative arrangement. We, unlike the Soviet system, do not dispatch aircraft, direct them, or fly them by wire, so to speak. We have a cooperative system where we give a clearance, it is accepted normally, where we give a vector and it is accepted normally.

Sometimes there is a dialog back and forth and it is almost always worked out. Where it isn't, we bring an enforcement action for a person who has violated the air rules. It is very rare. I do not know how many cases there have been, Mr. Goodrich.

Mr. GOODRICH. They would be almost infinitestimal.

Mr. HALABY. It is a handful each year, Mr. Thomas.

Mr. DAVID THOMAS. It is so rare it usually makes the headlines when it does happen.

Mr. WYMAN. But a commercial airline pilot receiving an instruction from one of your controllers, coming into an international or national airport, has the right, if he wishes, subject to his obligation to explain why afterward, to say, "No, I am going to take different altitude"?

Mr. HALABY. He has the right by declaring an emergency and reporting on it afterward to take action to avoid an emergency. I think that is correct. Your statement is just about that. It is exercised very, very rarely and if it is exercised negligently or carelessly, of course, we would have to bring a violation against him.

Mr. Thomas has a comment.

Mr. DAVID THOMAS. The only other comment I wanted to add is that even though this new system provides automatic altitude and identify reporting, all instructions still come from the controller. Decisionmaking and instructions are still from the controller, and not from the machine.

Mr. EVINS. You would have both the automated equipment and the individual for a double safety protection?

Mr. DAVID THOMAS. The automatic equipment does not do any controlling. It simply assists the controller by providing altitude and identify in front of his automatically.

Mr. HALABY. The decision is still made by the controller. The communication to the pilot is still by voice to the pilot and from the pilot to the controller. It is not an automatic system in that sense and it never will be as far as we can see.

DIFFERENCE BETWEEN CENTERS, TOWERS, AND STATIONS

Mr. EVINS. Mr. Administrator, we are going to turn over to your "Aircraft request." Before we do that I want to spell out real quickly for the record the difference between your centers, towers, and your stations.

Mr. HALABY. Yes, sir.

The center is technically known as an air route traffic control center. There are a total domestic and overseas of some 32 centers, coming down to 28 centers; 25 domestically coming down to 21 domestically.

These are in locations which we can list for you, but they are in the areas of the United States, over which the traffic flies.

They control enroute traffic, traffic between two points. The second is a tower of which there are about 270. The tower controls traffic, usually within a 5-mile radius of the airport iself. However, some of them, some 76 of them, have radar approach control facilities and they control traffic up to 50 miles out from the airport on which the tower is located.

A flight service station is an office, with teletype, communications, direction-finding equipment, and weather reporting and observing capabilities where men communicate with airmen in the air and across the counter on the ground.

CONSOLIDATION OF FLIGHT SERVICE STATIONS

The number of flight service stations has been as high as 450 when the system was quite primitive and manual; the number has come down to 335 in the last several years, and recently we have announced a consolidation of the 299 domestic stations into a total of 257.

We have also indicated to the committee that if the results are as safe and as economical as we believe, there can be additional consolidations.

The one who is hurt is the one who deals across the counter, but 90 percent of the pilots will get the same service as they get from the present system.

Mr. EVINS. Some of the members of the committee rather gain the impression that you have a very low regard for flight stations.

Mr. HALABY. That is not so, sir. We have no intention of eliminating them. We do feel that some economy with safety can be achieved by consolidating some of them.

The reason is simply that the technology and the traffic have changed from 1934, when they were beginning to be installed, until 1964. We have more communications, more radars, a more centralized and efficient system. Therefore, we can combine, due to technology and automation, some of these flight service stations.

Mr. EVINS. You are also reducing and consolidating some of your centers; are you not?

Mr. HALABY. Yes, sir.

Mr. EVINS. How about your towers? Do you regard them as important to the system?

Mr. HALABY. We do very much regard the towers as important and there are a total of 277 towers in the 700 air-carrier airports of the United States.

We add towers as we are providing this year to add 19 towers, I believe, when the operations at the field exceed 24,000. This device, of

course, is very important. It is very important because it permits the control of traffic around the airport where most accidents occur in takeoff or landing situations.

Mr. EVINS. Would there be any advantage or any service to a commercial airline carrier from a flight service station?

Mr. HALABY. There are two kinds of service stations that he constantly uses. One is the station on the airport that he serves and the other is a station which may be at another location than the airport he serves. In the one case where he is flying into an airport with the service station he can go to the counter, although he only does that about 10 percent of the time. In most cases commercial carriers, such as airlines, never go to the station.

Mr. EVINS. I was referring to the possibility of being in flight and communicating with the station.

Mr. HALABY. Yes, sir. In flight he would not know the difference between communicating with two separate stations or one consolidated station. Communications would be exactly the same.

Mr. EVINS. But there could be service in flight to a commercial carrier?

Mr. HALABY. Yes, sir.

Mr. EVINS. There could be service to private plane operators where there are flight service stations both on the ground and in flight?

Mr. HALABY. Yes, sir. They serve all alike and in an equal way and what we are trying to do is to maintain the high quality and quantity of service, but to do it with fewer people and fewer stations.

AIRCRAFT AND RELATED EQUIPMENT

Mr. EVINS. We will turn next to aircraft. Insert pages 596 and 597 in the record.

(The pages follow:)

AIRCRAFT AND RELATED EQUIPMENT, $1,979,000

(a) *Facilities flight inspection, $1,050,000*

(1) *Signal evaluation airborne laboratory (SEAL), $750,000.*—The continuous updating and improvements being made to ground facilities in the common system requires comparable updating of the facility flight inspection system and aircraft in order to provide the capability for accurate flight checking of these facilities. It is, therefore, necessary that a signal evaluation airborne laboratory be developed and installed for thorough flight evaluation as a production model of an improved flight inspection system. The development and evaluation of this model follows systems research and development requirements studies, development of complete system and equipment specifications, and the development and assembly of an engineering prototype model for laboratory and limited flight tests.

(2) *Procurement of hangar, line, shop, and test equipment, $130,000.*—Avionic test equipment, workbench cabinet racks, and mockups are required to provide additional capability necessary for implementation of a national program for scheduled maintenance, overhaul, and calibration of avionic test equipment; to provide additional work space in avionics shops; and to provide spare mockups for use as replacements since none are available in the event of a major breakdown in any mockup. Cost breakdown is as follows:

Test equipment	$99,000
Workbench cabinet racks	5,000
Mockups	26,000
Total	130,000

(3) *Procurement of ISL/VOR test equipment, $165,000.*—Improved ILS/VOR receivers have been approved for the basic altitude flight inspection aircraft.

However, the accuracy of ILS/VOR test sets currently employed is not compatible with the new receivers. Therefore, higher accuracy test equipment is required to provide the maintenance shops with the necessary capability. Thirty units at $5,500 are needed for this purpose.

(4) *Procurement and installation of Sel-Cal units in KC–135 aircraft, $5,000.*—A visual and aural alarm system is required in the cockpit of overwater flight inspection aircraft to provide for the selective calling of aircraft by ground stations via HF radio and to assure the reception of necessary inquiries from ground stations. Without this equipment, flight inspection aircraft crews will be subjected to many communications not directed to them with the possibility of not receiving many which concern them.

(*b*) *Logistic, administrative, and other, $929,000*

(1) *Procurement of eight light twin aircraft, $929,000.*—Eight light twin aircraft, obtained under a lease-purchase contract, are essential to the Agency to maintain general aviation inspectors current and proficient in modern aircraft, to fulfill long-trip requirements of air traffic in-flight evaluation programs, and to provide adequate aircraft for headquarters and regional administrative travel. Since these aircraft are currently being leased, a comparison of the relative cost between continuation of the lease and exercise of the purchase option as soon as practicable demonstrates the savings to be realized if the aircraft are purchased. A cost breakdown is as follows:

Acquisition cost of 8 aircraft (total)	$1,375,110
Less Government equity, Dec. 31, 1964, under terms of lease-purchase contract	−446,110
Purchase cost, Dec. 31, 1964	929,000

AIRCRAFT PROCUREMENT

Mr. EVINS. I notice that for test of equipment you are seeking $165,000. You have the acquisition cost of eight aircraft, $1,357,110.

Mr. HALABY. I am going to ask Mr. Moore to——

Mr. EVINS. Less Government equity, trade-in allowance, I suppose, $446,000 for a total purchase cost of $929,000 for eight aircraft. Mr. Reporter——

Mr. HALABY. Just one slight modification, Mr. Chairman. It is not trade in FAA old aircraft for a new, it is the equity which we have already invested in the lease-purchase contract.

Mr. EVINS. That was not the technical terminology that I used. Do not old aircraft have some value?

Mr. HALABY. Yes, sir. We already are using these and have some $446,000 invested through rental payments.

SIZE OF PRESENT AIRCRAFT FLEET

Mr. EVINS. How many aircraft does the FAA own at the present time? What is the status of your fleet?

Mr. MOORE. At the present time, sir, the Agency owns 70 aircraft. We have 44 aircraft on military loan and we have commercial leases on 16 aircraft, for a total of 130 aircraft.

PURCHASE OF AIRCRAFT

Mr. EVINS. You need eight more?

Mr. MOORE. Well, I am including, sir, the 8 that we would like to purchase in this total of 130.

Mr. EVINS. You have already added them to the fleet?

Mr. HALABY. They would move over from leased aircraft to owned aircraft.

Mr. EVINS. You are going to purchase 8 of the 16 that are leased?
Mr. MOORE. Yes, sir.
Mr. EVINS. Why not purchase 10 instead of 16?
Mr. MOORE. Well, we feel that eight is all we need to purchase at this time, sir.

In looking at the rest of the aircraft that are leased, it wouldn't be in the best interest of the Agency in our judgment to purchase them at this time. We are referring to a couple of Piper PA–24's and an Aero Commander, and so forth which is such equipment that we will not have a long-term need for as we will for these others.

Mr. EVINS. The 70 you own I suppose is a good fleet.
Mr. MOORE. We think it is a good fleet, sir.
Mr. EVINS. These 44 that are on loan are from the Air Force?
Mr. MOORE. Yes, sir. Let me correct that. Most of them are from the Navy. There are 39 DC–3's in that group. We use those in our flight inspection of the airway navigation system.
Mr. EVINS. If the Navy can loan you 44, why can't they loan you 8 more?
Mr. MOORE. Well, they are entirely different types of equipment, sir. I might point out the type the Navy loaned us are obsolete to their needs which the Navy is not operating in any quantity these days, but they do suit our needs for the flight inspection of navigational aids.
Mr. EVINS. How many aircraft has the FAA been purchasing over the past 2 or 3 years on an average?
Mr. MOORE. Never more than three. I believe the committee last year authorized the purchase of a 727 jet and 2 Gulfstreams. The year before that I am not sure if we did have purchases but there were some purchases in 1961 and 1962 for our training program that we have at Oklahoma City.
Mr. EVINS. Any questions on the purchase of new aircraft needs?
Mr. BOLAND. No questions.
Mr. EVINS. Mr. Ostertag?
Mr. OSTERTAG. No.
Mr. EVINS. Mr. Jonas?

AIRCRAFT RENTAL

Mr. JONAS. How much are you paying in rent for these planes that you will purchase?
Mr. HALABY. The annual rent for those aircraft is——
Mr. MOORE. $87.25 per hour.
Mr. HALABY. The total annual rent for the eight aircraft. We will have $446,110 equity in them by December 31, 1964. We have had them a year and a half.
Mr. MOORE. We picked them up last year, sir.
Mr. HALABY. A year and a half?
Mr. MOORE. $409,000 per year is the annual lease cost.
Mr. HALABY. Yes.
Mr. JONAS. How long do you have the option to apply rental on purchase?
Mr. MOORE. It is an open contract, sir. We could continue to——
Mr. JONAS. You could substitute this $929,000, pay out another $409,000 for another year's rent and then purchase them next year for the difference, if you wanted to defer the purchase?

Mr. MOORE. But we would lose considerable nonrecoverable moneys by doing that.

Mr. JONAS. What would you lose?

Mr. MOORE. If we were able to pick these aircraft up December 31, 1964, we would have $322,818 nonrecoverable. If we waited a year we would have a total nonrecoverable of $408,750.

Mr. HALABY. He wants to know what is being lost, as you put it. In other words, this is the carrying charge and the interest and he would like that broken down so he could judge whether or not to permit it this year or next year.

Mr. MOORE. I don't have that breakdown, sir, but I can get it.

Mr. JONAS. Then what would the nonrecoverable cost consist of?

Mr. MOORE. Interest and insurance.

Mr. HALABY. The two main items are interest and insurance.

Mr. JONAS. Aren't you a self-insurer?

Mr. HALABY. Not on these leased aircraft, we don't own them.

Mr. JONAS. You don't insure the ones you own. They don't require you to insure them. Isn't the Government's contract good without insurance?

Mr. ALEXANDER. This is the part of the lease price not applied toward the ultimate purchase and represents the cost to the owner of the aircraft for carrying them until such time as they are purchased.

Mr. JONAS. Will you give us a brief description of the 130 aircraft? What are the types you own?

Mr. HALABY. They appear at pages 486 and 487.

Mr. EVINS. Mr. Wyman.

Mr. WYMAN. No questions.

Mr. EVINS. Mr. Moore, why do you need these eight aircraft at this time?

Mr. MOORE. We use them for familiarizing our general safety inspectors with the latest equipments. We use them for our air traffic control specialists to evaluate the airways system and we also use them for administrative transportation purposes.

WASHINGTON NATIONAL AIRPORT

OPERATION AND MAINTENANCE

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	2,100	2,284	2,271
	Positions other than permanent	6		
	Other personnel compensation	144	123	127
	Total personnel compensation	2,250	2,407	2,398
12	Personnel benefits	163	177	170
21	Travel and transportation of persons	3	8	8
23	Rent, communications, and utilities	210	205	218
24	Printing and reproduction		3	3
25	Other services	169	236	231
26	Supplies and materials	205	209	228
31	Equipment	308	100	175
32	Lands and structures	145	237	200
42	Insurance claims and indemnities	2		
	Total obligations	3,455	3,582	3,631

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	362	383	366
Full-time equivalent of other positions	1		
Average number of all employees	344	368	357
Employees in permanent positions, end of year	355	383	366
Employees in other positions, end of year	1	0	0
Average GS grade	6.7	6.6	6.6
Average GS salary	$6,931	$6,962	$7,064
Average salary of ungraded positions	$5,754	$5,673	$5,880

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs:			
1. Terminal area	1,135	1,230	1,246
2. Hangar area	528	577	584
3. Landing area	925	1,004	1,018
4. Other areas	462	504	511
Total operating costs, funded	3,050	3,315	3,359
Capital outlay	451	499	300
Total program costs, funded	3,501	3,814	3,659
Change in selected resources [1]	−46	−232	−28
Total obligations	3,455	3,582	3,631
Financing: Unobligated balance lapsing	20		
New obligational authority (appropriation)	3,475	3,582	3,631

[1] Selected resources as of June 30 are as follows:

	1962	*1963*	*1964*	*1965*
Stores	119	118	100	100
Unpaid undelivered orders	592	535	320	292
Accrued annual leave	−63	−51	−50	−50
Total selected resources	648	602	370	342

CONSTRUCTION

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
	FEDERAL AVIATION AGENCY			
11	Personnel compensation:			
	Permanent positions	52	110	116
	Other personnel compensation	5	2	2
	Total personnel compensation	57	112	118
12	Personnel benefits	4	8	8
21	Travel and transportation of persons		6	6
25	Other services		125	80
32	Lands and structures	684	3,583	3,705
	Total, Federal Aviation Agency	745	3,834	3,917
	ALLOCATION TO COMMERCE, BUREAU OF PUBLIC ROADS			
11	Personnel compensation:			
	Permanent positions	20	79	103
	Other personnel compensation		1	1
	Total personnel compensation	20	80	104
12	Personnel benefits	2	6	8
22	Transportation of things	1	1	10
25	Other services	3	9	18
	Services of other agencies	25	30	61
32	Lands and structures	618	1,882	
	Total, Bureau of Public Roads	669	2,008	201
	Total obligations	1,414	5,842	4,118

Personnel summary

	1963 actual	1964 estimate	1965 estimate
FEDERAL AVIATION AGENCY			
Total number of permanent positions	9	12	12
Average number of all employees	6	12	12
Employees in permanent positions, end of year	9	12	12
Employees in other positions, end of year	0	0	0
Average GS grade	10.9	10.5	10.5
Average GS salary	$9,204	$9,717	$9,920
Average salary of ungraded positions	$6,698	$6,791	$6,885
ALLOCATION TO COMMERCE, BUREAU OF PUBLIC ROADS			
Total number of permanent positions	16	16	24
Average number of all employees	3	13	17
Employees in permanent positions, end of year	2	16	20
Employees in other positions, end of year	1	1	1
Average GS grade	8.8	8.9	8.9
Average GS salary	$8,155	$8,723	$8,801

Program and financing

[In thousands of dollars]

	Costs to this appropriation					Analysis of 1965 financing			
	Total estimate	To June 30, 1962	1963 actual	1964 estimate	1965 estimate	Deduct selected resources and unobligated balance, start of year	Add selected resources and unobligated balance, end of year	Appropriation required, 1965	Appropriation required to complete
Program by activities:									
1. Terminal area projects	1,365	358	394	588	25	25			
2. Hangar area projects	1,800				1,240		560	1,800	
3. Landing area projects	6,261	1,494	238	2,041	2,002	2,488	486		
4. Other area projects	5,191	291	450	1,575	2,422	2,875	453		
Total program costs, funded	14,617	2,143	1,082	4,204	5,689	5,388	1,499	1,800	
Change in selected resources [1]			332	1,638	−1,571				
Total obligations			1,414	5,842	4,118				
Financing:									
Unobligated balance brought forward			−5,581	−6,167	−2,400				
Unobligated balance carried forward			6,167	2,400	82				
New obligational authority (appropriation)			2,000	2,075	1,800				

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1962, $1,019,000; 1963, $1,350,000; 1964, $2,988,000; 1965, $1,417,000.

Mr. EVINS. Next we have two other items, "Operation and maintenance of Washington National Airport" and "Construction of Washington National Airport." I want to consolidate these two together.

Mr. Reporter, will you please place in the record 626, 627, 628, and 629, and also the construction budget, which is 684 through 686.

(The pages follow:)

OPERATION AND MAINTENANCE, WASHINGTON NATIONAL AIRPORT

Summary of appropriation requirements

Appropriation, 1964 (regular bill)				$3,581,500
Net difference, 1965 over 1964:				
Activity	1964 appropriation	1965 estimate	Difference, increase (+) or decrease (−)	
Washington National Airport	$3,027,300	$3,163,000	+$135,700	
Consolidated functions	554,200	468,000	−86,200	
Total	3,581,500	3,631,000	+49,500	+49,500
Total estimate of appropriation, 1965				3,631,000

OPERATION AND MAINTENANCE, WASHINGTON NATIONAL AIRPORT

GENERAL JUSTIFICATION

Activities financed under this appropriation include the operation, maintenance, and protection services of the airport, as well as staff assistance from Bureau headquarters. Costs of the central headquarters are added to airport operating costs to provide an accurate base on which to establish airport use rates and charges. Outlays for operating equipment and maintenance projects are also financed under this appropriation, while major construction projects are financed under a separate "Construction, Washington National Airport," appropriation.

The fiscal year 1965 appropriation request of $3,631,000 will provide $3,270,500 for direct operating expenses and $360,500 for capital outlays. Capital outlays will permit the acquisition of necessary operating and working equipment and also provide for the replacement or renovation of deteriorated or inadequate facilities.

Despite known workload increases requiring 14 new positions, no new positions have been requested for fiscal year 1965. This action assumes a 5-percent productivity increase. The positions which would have been requested, such as the firemen to man new equipment and utility workers for the new sewage treatment plant, will be reprogramed within existing personnel ceilings. To do this, a conscientious program of review and analysis will be maintained to insure the optimum use of all available manpower.

During fiscal year 1965, Washington National Airport will continue to serve as the principal air terminal in the metropolitan area of Washington, D.C. In fiscal year 1964, aircraft and passenger activities are expected to increase. Aircraft movements are anticipated to stabilize at a level of approximately 300,000 in fiscal year 1964 and beyond. During the same period, passenger activity will decrease approximately 100,000 per year from the fiscal year 1964 level. These estimates reflect the growth of general aviation, offsetting minor reductions in commercial activities as Dulles International Airport assumes more of the Metropolitan Washington air traffic.

The following table represents a projection of operational activities expected at Washington National Airport:

	1963 actual	1964 estimate	1965 estimate
Traffic movements	279,007	300,000	300,000
Passenger movements	5,007,993	5,300,000	5,200,000

Business policies of the Bureau of National Capital Airports are based upon the recovery, through appropriate and equitable fees and charges, of all out-of-pocket operating expenses, plus the realization of a fair yield on the Government's investment computed on a basis comparable to that used by other major commercial airports. Generally, those policies recognize the following principles:

(*a*) All airports under the jurisdiction of the Bureau of National Capital Airports will be operated on a self-sustaining business enterprise basis. Rates will be set at levels which will provide sufficient revenues to recover all expenses in each area.

(*b*) Concession contracts will normally contain a provision requiring a minimum annual guarantee which will equal or exceed the rental rate for the space occupied, in addition to the standard provision of a percentage of gross receipts.

(*c*) The Bureau will select responsible contractors to furnish appropriate support services and concessions. They will be required to provide good service and products at fair prices to the public.

(*d*) The Bureau will select concessionaires and operators who will contribute to the appearance of the airport and will provide a quality operation commensurate with the decor of the first-class airport serving the Nation's Capital.

Fiscal year 1965 funding requirements for operation and maintenance of the Washington National Airport are summarized as follows:

	1964	1965	Difference
Positions	383	366	−17
Amount	$3,581,500	$3,631,000	+$49,500

In 1965 there is a requirement for a net additional amount of $49,500 in this appropriation. This requirement reflects the need for an additional $180,400 partially offset by a decrease of $130,900 and 17 positions. These added funds are chiefly needed for operating costs of new facilities, salary increases, additional within-grade salary costs, and additional man-years of workload in 1965. The reduction of $130,900 and 17 positions represents an adjustment between WNA and DIA. This adjustment is necessary to allow each airport to pay its appropriate share of the consolidated costs associated with running the two airports. Changes in the 1965 program are summarized in the following table and discussed in detail in the following pages.

	Positions	Amount
Operating requirements:		
Direct costs:		
New program		$34,800
Phase II pay increases		22,000
Other pay adjustments		32,400
Other cost adjustments		10,500
Consolidated functions	−17	−86,200
Subtotal	−17	13,500
Capital outlay: Direct costs		36,000
Total	−17	49,500

New program, +$34,800

This increase is essentially for supplies and utilities associated with the operation of the new sewage pretreatment plant, and new centerline lighting on runway 18–36. More detail on these increases will be found in subsequent pages.

Phase II pay increase, +$22,000

This category of cost represents the amount required to meet the cost of that portion of the pay increases authorized by Public Law 87–793 and becoming effective in January 1964. The estimate is based on employment in general schedule grades as of January 1, 1964, and was computed on a grade-by-grade basis to give proper weight to the different amount of increase for each grade level. The amount included in this estimate represents the difference between the total

yearly value of the increase and the amount which was payable in 1964. On the average, this estimate is 51.5 percent of the total yearly costs.

Other pay adjustments, +$32,400

During the fiscal year 1965 $32,400 will be required to finance within-grade salary increases and additional salary costs of personnel who will be qualified for and promoted to higher grade levels than positions occupied during 1964. The estimate represents a net cost after adjusting for savings in within-grade costs due to turnover, and is based on present grade levels of employees in this activity and the length of time they have been in present grade levels.

Other cost adjustments, +$10,500

An increase of $10,500 is required for additional workload associated with the direction, operation, and maintenance of the Washington National Airport.

Consolidated functions, −$86,200

This decrease in the WNA appropriation reflects an increase of $44,700 offset by a decreasing 1965 adjustment of $130,900. This adjustment between WNA and DIA appropriations will allow proper distribution of these costs between the two appropriations. An offsetting adjustment has been made in the DIA appropriation. The increase of $44,700 is the WNA share of the proration of consolidated services and will provide $9,700 for salary costs associated with implementation of the Salary Reform Act of 1962, $5,200 for within-grade salary costs, $5,900 for new programs and $23,900 for financing of additional man-years of effort in 1965.

Capital outlay, +$36,000

Total WNA requirements for planned major maintenance, structural repair and capital equipment result in an increase of $36,000 in 1965. Details of the specific projects may be found under "Capital outlay" in the subsequent justification.

Construction, Washington National Airport

Summary of appropriation requirements

Appropriation 1964 (regular bill)				$2,075,000
Net difference, 1965 over 1964:				
Project	1964 appropriation	1965 estimate	Difference, increase (+) or decrease (−)	
Runway strengthening and centerline lighting (main runway 18-36)	$1,938,000		−$1,938,000	
Parking lot lighting and expansion	137,000		−137,000	
Replace hangar No. 10		$1,800,000	+1,800,000	
Total	2,075,000	1,800,000	−275,000	−275,000
Total estimate of appropriation, 1965				1,800,000

GENERAL STATEMENT

This appropriation finances major capital improvement projects at Washington National Airport. The construction programs have been developed with the assistance of a firm of consulting engineers to insure an integrated program balancing the needs of the Washington metropolitan area with the potential capabilities of both Washington National Airport and Dulles International Airport.

The replacement of hangar No. 10 will provide modern facilities which will be leased to a second fixed base operator. The lease charges will recover the capital investment, with appropriate charges for interest and maintenance, within the useful life of the hangar.

PROJECT JUSTIFICATION

Replacement of hangar 10, $1,800,000

The existing barrel arch hangar considered for replacement will not accommodate present-day tricycle gear commercial-type aircraft with their extremely high vertical stabilizer. The barrel arch by virtue of its design has very low clearance heights along the sidewalls. This situation precludes maneuvering of large aircraft inside the hangar. The center section only can accommodate maintenance activities with the balance of space being literally wasted.

The present trend in general aviation, the intended user for the proposed hangar, is toward the larger type aircraft in corporate use, i.e., the Vickers Viscount, Convair 440's, Fairchild F-27, the Lockheed Jet Star.

The replacement hangar to be constructed under this program will conform to the other existing hangars at this airport and will provide adequate facilities for servicing of present and future aircraft. The ability to maintain a number of large aircraft simultaneously with a minimum of maneuvering problems will add materially to the hangar operator's ability to conduct work in any given period, thereby making the rental of hangar space more lucrative.

The breakdown of the cost estimate is as follows:

A. Demolition of existing structure, 45,000 square feet at $2 per square foot	90,000
B. Hangar replacement:	
1. Base structure, 35,300 square feet at $23	812,000
2. Office area, 30,000 square feet at $26	778,000
3. Design fee, 5 percent of construction costs	80,000
4. Supervision, 2½ percent of construction costs	40,000
Subtotal	1,710,000
Total estimate	1,800,000

Mr. EVINS. For Operations of the Washington National Airport in 1964 you had $3,581,500 and you are asking for $3,631,000, or $49,500 increase. Why is this increase necessary for the operation of this airport which we thought was getting on a self-sustaining, self-maintaining basis?

Mr. HALABY. Could we ask Mr. Hobbs to speak for a moment? I asked him if he could summarize very briefly.

Mr. EVINS. Mr. Hobbs is the General Manager of Washington and Dulles both. We are delighted to have you.

Mr. HALABY. Thank you, sir.

Mr. EVINS. I thought he had a big enough job at Dulles.

Mr. HOBBS. I do, indeed, but I welcome them both. They are a lot of fun.

Mr. EVINS. Tell us all about Washington, first, Mr. Hobbs. Why do you need this money and what are your construction items?

Mr. HOBBS. I will be mighty glad to, Mr. Chairman.

1963 AIRPORT OPERATIONS

Mr. Chairman, Washington National Airport in the year 1963, calendar, deposited in the Treasury of the United States $4,323,000. We originated out of Washington National Airport 5,303,655 warm bodies. For 1963, we estimated that airport would realize only 4,500,000 people, so it exceeded its expectations in 1963 over 17 percent,

despite the fact that we had forecast that Washington National Airport, with the advent of Dulles, would probably decrease. Now, let's look at the 1963 calendar year for Dulles.

In that year we deposited in the Treasury $1,090,000, including $3,470 realized by operating our mobile lounges at 25 cents a head on weekends, taking people for rides.

PASSENGER TRAFFIC

The Dulles International and Washington Airport has turned out to be quite a monumental sightseeing center. It is not only an airport. For example, Washington National Airport had 310,000 parked cars for the year 1963, while Dulles Airport had 378,000 parked cars. This shows that the visitor volume is substantial. Of more significance, however, is how did we do in relation to our passenger estimate? We estimated that Dulles would realize 1,016,000 passengers. We handled 611,000 people in 1963.

We thought some additional traffic would move over from Washington National into Dulles. This did not happen. To the contrary, Washington National increased in both volume of flights and in people.

We did not meet our forecasts, but I do not think that fact should be viewed pessimistically. We realized 611,000 passengers during the calendar year in Dulles, and I am proud to say in comparison, that it took the John F. Kennedy Airport, Idlewild Airport, 4 years to reach that level. It took Washington National Airport 5 years to reach that level.

I think we would have done much better at Dulles Airport if we too, had a promotional budget like our good friends in Baltimore.

They have enjoyed an extraordinary budget and have put a full page ad in Time magazine.

Mr. EVINS. Mr. Hobbs, I asked you to tell us about Washington and you have gone to Dulles and Friendship. Tell us about Dulles and why you need this money.

INCREASE REQUESTED FOR WASHINGTON NATIONAL AIRPORT

Mr. HOBBS. The National O. & M. budget is $49,500 over that in 1964. We now have a 25-year installation at Washington National Airport. And as a result we have a continuing maintenance program requiring refinishing of our hangars by weatherizing and painting them.

We must also remove the ceiling in the main concourse of the main terminal building where the pipes in the ceiling are sweating and have stained it considerably. You will note we have not asked for any more people at Washington National but we need the additional funding to accomplish our increasing maintenance workload.

Dulles International Airport

OPERATION AND MAINTENANCE

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	1,772	2,320	2,808
	Positions other than permanent	15		
	Other personnel compensation	201	200	181
	Total personnel compensation	1,988	2,520	2,989
12	Personnel benefits	138	176	225
21	Travel and transportation of persons	11	13	13
22	Transportation of things	1	5	5
23	Rent, communications, and utilities	256	475	576
24	Printing and reproduction	10	11	13
25	Other services	62	128	129
26	Supplies and materials	216	304	355
31	Equipment	482	203	220
32	Lands and structures	105	150	94
	Total obligations	3,269	3,985	4,619

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	354	442	488
Full-time equivalent of other positions	4		
Average number of all employees	302	404	458
Employees in permanent positions, end of year	349	442	488
Employees in other positions, end of year	8	0	0
Average GS grade	5.5	5.5	5.5
Average GS salary	$5,304	$5,566	$5,635
Average salary of ungraded positions	$5,749	$5,574	$5,909

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs:			
1. Landing area	610	763	966
2. Mobile lounge area	423	529	669
3. Industrial-commercial area	1,264	1,580	2,000
4. Other areas	416	519	657
Total operating costs, funded	2,713	3,391	4,292
Capital outlay	973	793	282
Total program costs, funded	3,686	4,184	4,574
Change in selected resources [1]	−417	−199	45
Total obligations	3,269	3,985	4,619
Financing: Unobligated balance lapsing	8		
New obligational authority (appropriation)	3,277	3,985	4,619

[1] Selected resources as of June 30 are as follows:

	1962	1962 adjustments	1963	1964	1965
Stores	12		87	200	200
Unpaid undelivered orders	1,196	−42	703	400	445
Accrued annual leave			−41	−50	−50
Total selected resources	1,208	−42	749	550	595

CONSTRUCTION

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation: Permanent positions		19	19
12	Personnel benefits		1	1
32	Lands and structures		430	180
	Total obligations		450	200

Personnel summary

	1963 actual	1963 estimate	1965 estimate
Total number of permanent positions		2	2
Average number of all employees		2	2
Employees in permanent positions, end of year		2	2
Employees in other positions, end of year		0	0
Average GS grade		11.0	11.0
Average GS salary		$9,402	$9,402

Program and financing

[In thousands of dollars]

	Costs to this appropriation					Analysis of 1965 financing			Appropriation required to complete
	Total estimate	To June 30, 1962	1963 actual	1964 estimate	1965 estimate	Deduct selected resources and unobligated balance, start of year	Add selected resources and unobligated balance, end of year	Appropriation required, 1965	
Program by activities: Construction and improvement projects (costs—obligations)	650			450	200			200	
Financing: New obligational authority (appropriation)				450	200				

Mr. EVINS. Now what about Dulles?

Mr. HOBBS. In our Dulles budget we are asking for 29 people and a $634,000 increase over the O. & M. appropriation for 1964. In this respect, it is difficult to come in and be the only one in Mr. Halaby's budget asking for additional people, but we do have a 10,000-acre and a very complex installation at Dulles. We have an electrical system, for instance——

Mr. EVINS. Mr. Reporter, at this point we will place in the record justification for the operation of Dulles and the construction of Dulles. Let's place in the record at this point page 655, which calls for $4,619,000 for funding for Dulles for next year, or an increase of $634,000, including the text at 656 and 657, and the "Construction" page 687, which is $200,000 for construction.

(The material follows:)

OPERATION AND MAINTENANCE, DULLES INTERNATIONAL AIRPORT

Summary of appropriation requirements

Appropriation, 1964 (regular bill)				$3,985,000
Net difference—1965 over 1964:				
Activity	1964 appropriation	1965 estimate	Difference, increase (+) or decrease (−)	
Dulles International Airport	$3,691,000	$4,149,300	+$458,300	
Consolidated functions	294,000	469,700	+175,700	
Total	3,985,000	4,619,000	+634,000	+634,000
Total estimate of appropriation, 1965				4,619,000

GENERAL JUSTIFICATION

Activities financed under this appropriation include the operation, maintenance, and protection services of the airport, as well as staff assistance from Bureau headquarters. Costs of the central headquarters are added to airport operating costs to provide an accurate cost base in which to establish airport use rates and charges. Capital outlays for operating and working equipment and maintenance projects are also financed from this appropriation, while major construction projects are financed under a separate "Construction, Dulles International Airport" appropriation.

The fiscal year 1965 appropriation request of $4,619,000 will provide $4,332,800 for direct operating expenses and $286,200 for capital outlays. Included in this request is an increase in staffing of 29 positions at a cost of $93,300. The proposed capital outlays will permit the acquisition of necessary operating and working equipment, the majority of which is for replacement, and will allow for modification of a few operational facilities.

Although Washington National Airport will continue to serve during fiscal year 1965, as the principal air terminal in the metropolitan area of Washington, D.C., in relation to passenger and aircraft volumes, it is expected that operational activities at Dulles International Airport will continue to expand substantially as indicated on the following table:

	Fiscal year 1963 actual	Fiscal year 1964 estimate	Fiscal year 1965 estimate
Traffic movements	$50,359	$95,000	$120,000
Passengers	377,738	1,200,000	2,000,000

Business policies of the Bureau of National Capital Airports are based upon the recovery, through appropriate and equitable fees and charges, of all out-of-pocket operating expenses, plus the realization of a fair yield on the Government's investment computed on a basis comparable to that used by other major

commercial airports. Generally, those policies recognize the following principles:

(*a*) All airports under the jurisdiction of the Bureau of National Capital Airports will be operated on a self-sustaining business enterprise basis. Rates will be set at levels which will provide sufficient revenues to recover all expenses in each area.

(*b*) Concession contracts will normally contain a provision requiring a minimum annual guarantee which will equal or exceed the rental rate for the space occupied, in addition to the standard provision of a percentage of gross receipts.

(*c*) The Bureau will select responsible contractors to furnish appropriate support services and concessions. They will be required to provide good service and products at fair prices to the public.

(*d*) The Bureau will select concessionaires and operators who will contribute to the appearance of the airports and will provide a quality operation commensurate with the decor of the first-class airports serving the Nation's Capital.

The fiscal year 1965 funding requirements for operation and maintenance of the Dulles International Airport are summarized as follows:

	1964	1965	Difference
Positions	442	488	+46
Amount	$3,985,000	$4,619,000	+$634,000

In 1965, the program for operation and maintenance of the Dulles International Airport will require an additional 46 positions and $634,000. Of this amount 17 positions and $130,900 results from a redistribution between WNA and DIA of consolidated services costs. This DIA increase has been offset by a like decrease in WNA. The remaining increase of 29 positions and $503,100 is required for new program requirements necessary to adequately operate, maintain and police the airport, as well as for required salary increases, additional within-grade salary costs and additional average employment in 1965.

Changes in the 1965 program are summarized in the following table and discussed in detail in the following pages.

Operating requirements

	Positions	Amount
Direct costs:		
New program	29	$244,200
Phase II pay increases		29,000
Other pay adjustments		45,000
Other cost adjustments		173,100
Consolidated Functions	17	176,300
Subtotal	46	667,600

Construction, Dulles International Airport

Summary of appropriation requirements

Appropriation 1964 (regular bill)				$450,000
Net difference—1965 over 1964:				
Project	1964 appropriation	1965 estimate	Difference, increase (+) or decrease (−)	
Expanded auto parking facilities	$398,000		−$398,000	
Modifications to utility building	52,000		−52,000	
Interior management roads		$200,000	+200,000	
Total	450,000	200,000	−250,000	−250,000
Total estimate of appropriation, 1965				200,000

GENERAL STATEMENT

This appropriation finances the orderly expansion of Dulles International Airport to provide the service facilities required for the predicted aircraft and passenger activity increases.

The planned development has been based upon the use of private capital for the construction of many of the required public or commercial service facilities. To keep pace with these expanded private service facilities and forecasted passenger and aircraft activity, the airport must of necessity expand its own facilities. The fiscal year 1965 request provides for essential roadways within the airfield to facilitate the access of maintenance and safety vehicles.

PROJECT JUSTIFICATION

Interior management roads, $200,000

During the original construction a road network to serve emergency vehicles, maintenance vehicles, snow removal equipment, and operation patrol vehicles, was provided. The roadbeds were graded, drainage provided, and a gravel base course applied. No hard surface such as blacktop or macadam was provided.

The airport has been operational now for over 13 months, and the breakdown of equipment caused by rough and rutted roads has necessitated the expenditure of many man-hours in vehicular repair. Although every effort is made to keep the roads in a well-graded condition, the miles of roadways and in winter the frozen rutted surface often preclude satisfactory maintenance within acceptable standards. Surfacing of the roadways will materially reduce vehicle failures, permit easier access to navaid and airport equipment, and relieve the manpower workload associated with constant road grading.

CONSTRUCTION—DULLES

Mr. EVINS. Tell us why you need this $1.8 million in construction?

Mr. HOBBS. The $1.8 million in construction is at Washington National for replacement of hangar 10. We have one round roof hangar at Washington National which was put up in World War II and it is not a modern hangar. It will not house the airplane of today, with its tail height. We are asking for this money to replace that hangar.

The $200,000 construction at Dulles International Airport is requested to pave the airport's service roads which serve the air cargo trucks and the airline trucks entering from Route 50 en route to the service gates.

EMPLOYMENT—DULLES

Mr. EVINS. You have had a decline of 17 personnel at Washington National Airport but you are asking for an increase from 34 to 51 new jobs for positions at Dulles. You are just transferring the 17 positions out to the other airport, is that about it?

Mr. HOBBS. Yes, sir; they are not new positions, Mr. Chairman. We are transferring the funds that go with those positions and what we are doing is centralizing functions in the Bureau which support both airports. As you know, we are phasing out of the construction area, to the operating area. Therefore, with Mr. Halaby's guidance, we reorganized the Bureau by pulling out common functions from both airports into the headquarters support functions, accounting, payroll, lease negotiations, et cetera. All of the business activities of both airports have been pulled into 800 Independence Avenue. This is a shifting of funding. During 1964, Washington National is financing 55 percent of such support, and Dulles 45 percent. We are now shifting and making each airport support the headquarters on a 50–50 basis.

MANAGEMENT OF AIRPORTS

Mr. EVINS. Are you the manager of both these important fields here in the Nation's Capital?

Mr. HOBBS. Yes, sir.

Mr. EVINS. You sit down here on Independence Avenue and you don't go out and run them?

Mr. HOBBS. Thank you for bringing that up, sir. In our new organization we have organized like a corporation in which we have an Assistant Director for Business Management, Mr. Bacon, who is with me here. Also, we were very fortunate in obtaining Mr. Arvin Saunders, a very capable airport manager from Cincinnati, to be our Assistant Director for Operations, who is the on-site general manager for both airports, reporting to me. We have a supporting service for engineering—thus, a three-headed organization instead of the former five-headed organization.

The airports are now purely, and rather cleanly, operational.

PASSENGER TRAFFIC

Mr. BOLAND. You say that in calendar year 1963 you anticipated you would carry 1,016,000 passengers out of Dulles, and you actually carried 611,000?

Mr. HOBBS. Yes, sir.

Mr. BOLAND. And you are very proud of the fact that it has reached this level when it took 5 years for the JFK Airport?

Mr. HOBBS. For the JFK it was 4 years and 5 for Washington National.

Mr. BOLAND. How many people were flying in the years they reached this level?

Mr. HOBBS. They did not reach it until after the 4-year period at JFK and the 5-year period at National.

Mr. BOLAND. How many people were flying in those days, as compared with the people flying today? I don't think that is a very important statistic. How many people do you have flying today?

Mr. OSTERTAG. Seventy-seven million.

Mr. BOLAND. How many people were flying when Washington National reached 611,000 at the end of their 4 years? What year was this?

Mr. HOBBS. 1943.

Mr. BOLAND. How many people were flying in 1943?

Mr. HOBBS. I don't have an answer to give you.

(The following was subsequently supplied for the record:)

Enplaned passengers in 1943 totaled 3.3 million.

Mr. BOLAND. Then this statistic isn't a very important one, really? It is a beautiful airport and I hope it makes money and I would love to see it out of the red, but we didn't build an airport to supply mobile lounges to cart people around at 25 cents. This is fine. I have no objection. You made $3,470, which is a lot of money and you parked 378,000 cars and maybe 350,000 were visitors out there, and it is a great place to visit, but we really didn't build it as an entertainment attraction. We are building the Kennedy Cultural Center for that type of thing.

Mr. HOBBS. Mr. Boland, it is an attraction and we are trying to do the best we can with it.

Mr. BOLAND. I think you are. It is a magnificent airport and I think it should be the finest in the world. It is. But we built it as an airport and not a visitors' gallery.

Mr. HOBBS. I do not disagree with you, but after promising a return of the Government investment over 30 years, if I didn't pick up two bits for the mobile lounge——

Mr. BOLAND. I agree. I applaud you and I agree that you have some wonderful personnel. I think Mr. Saunders, who incidentally is from my hometown, is a very able administrator and I think you are very fortunate to have him.

Mr. HOBBS. We are very proud to have him.

Mr. BOLAND. Is he an Assistant Director of Operations for both airports?

Mr. HOBBS. Yes.

Mr. BOLAND. Let's not justify Dulles on the basis of the fact that it is a visitors' gallery. It really isn't. It is just a wonderul, magnificent airport that we hope will pay off in 30 years—and you are trying to do it—I am sure you are trying to do that and you are heading for it slowly. Imperceptibly, but surely.

AMORTIZATION OF DULLES AIRPORT

Mr. THOMAS. Mr. Hobbs, are you on schedule with regard to amortization, lock stock, and barrel, in 30 years?

What did we request, 25 or 30 years?

Mr. HOBBS. Thirty years. Last year we said to you that during the first 10 we would lose. The second 10 we would realize operating expenses. The third 10 we would——

Mr. THOMAS. What did you do in the last calendar year?

Mr. HOBBS. In the last calendar year when we estimated 1,016,00, we realized 611,000 passengers.

Mr. THOMAS. It doesn't look like you will amortize it in 30 years, then, does it?

Mr. HOBBS. I have a hard time trying to assure you of that, today, sir.

LOSS AT DULLES IN 1963

Mr. THOMAS. As a matter of fact, what did we lose last year?

Mr. HOBBS. $6.9 million for fiscal year 1963.

Mr. THOMAS. $6,067,000 you have here on operation and maintenance alone.

Mr. HOBBS. We lost $6.9 million total in the last year.

Mr. HALABY. How much of that was operating loss?

Mr. HOBBS. $2.1 million.

Mr. HALABY. So $2.1 million was a net operating loss and $6.9 million was the total loss, including depreciation.

Mr. HOBBS. And interest, yes, sir.

Mr. THOMAS. Your operating loss was about a third of your loss—you are charging interest and you are not charging any taxes; are you? You are charging interest.

Mr. HOBBS. Interest, yes, sir.

Mr. THOMAS. Depreciation on the building and your equipment?
Mr. HOBBS. Yes, sir.

DULLES ROAD MAINTENANCE

Mr. THOMAS. How much did that highway going through good old Virginia cost, and how much are you spending per year maintaining it, and how much do you have in capital equipment? It is a beautiful beautiful thing, I know. I am just wondering what it cost us. Whatever it is, I think it is worth the money, but I imagine it comes a little bit high.
Mr. HOBBS. For maintaining it for the year?
Mr. THOMAS. Where do you start maintaining the roads?
Mr. HOBBS. From the airport to Route 123, sir.
Mr. HALABY. It is about 12½ miles, sir.
Mr. THOMAS. When you turn off to your right, that is where you start paying?
Mr. HOBBS. Yes, sir.
Mr. THOMAS. What does that 12½ miles cost you? What did it cost last year?
Mr. HOBBS. $240,000, roughly.
Mr. THOMAS. The Bureau of Public Roads paid for the highway?
Mr. HOBBS. No, sir; we paid for it.
Mr. THOMAS. It came out of these funds?
Mr. HOBBS. Yes, sir.
Mr. HALABY. $18 million.
Mr. THOMAS. It wasn't out of the Bureau of Public Roads?
Mr. HALABY. One of Mr. Hobbs' problems is——

COST OF ROAD EQUIPMENT

Mr. THOMAS. How much do you have tied up in equipment there? I go by there lots of times—that is my favorite road on Sundays. I see 12 or 15 tractors parked out there with big blades on them, 6- and 7-foot blades.
Mr. HOBBS. I haven't separated it for the access highway, but we have $1.8 million tied up in equipment.
Mr. HALABY. That is for the airport and the highway, snowplows, bulldozers.
Mr. HOBBS. Lawnmowers, trucks, allied equipment.

REPLACEMENT OF SHRUBBERY AT DULLES

Mr. THOMAS. You have had some hard luck with your shrubbery out there. I hope you didn't have a cost-plus-fixed-fee contract.
Mr. HOBBS. We are protected by our contract, Mr. Chairman.
Mr. THOMAS. On all the shrubbery you have to dig up?
Mr. HOBBS. Yes, sir.
Mr. THOMAS. About a third of your big trees died and about a fifth of your small ones and I didn't get to count all of your azaleas. Will you get those replaced, too?
Mr. HOBBS. Yes, sir; all of it replaced.

Mr. THOMAS. Well, you have the most functional airport that I ever saw. I don't know whether you can justify it in terms of the money or not, but just as sure as the world, it is the coming-type airport of the future.

GROWTH RATE AT DULLES

Mr. JONAS. Mr. Hobbs, can you furnish us a table showing the growth rate at Dulles by month?

Mr. HOBBS. Yes, sir; I can read it to you right now, sir, if you would like. I would be glad to.

From opening of 1963, schedules or passengers?

Mr. JONAS. Passengers. That is the figure you used before of 600,000.

Mr. HOBBS. In January 1963, 45,423; February, 43,588; March, 53,662; April, 58,208; May, 55,777; June, 66,340; July, 57,589; August, 65,337; September, 57,924; October, 57,848; November, 49,821; December, 49,930; for a total of 661,448.

It may be interesting to note, gentlemen, in January 1963 where we had 74 daily flights and carried 45,000 people, in January of 1964 we had 10 less flights, 65 daily flights, and carried 47,450; more people but less flights.

Mr. BOLAND. And less money to the airport.

Mr. HOBBS. And less money.

Mr. HALABY. But the fact is, to sum it up, you are behind your schedule for the year 1963 about 40 percent?

Mr. HOBBS. Yes, sir.

Mr. HALABY. The reason is you overestimated the traffic coming into Dulles?

Mr. HOBBS. Yes, sir.

Mr. HALABY. Particularly in that you thought there would be more traffic transferring from Washington National to Dulles as a terminal and you estimated there would be less traffic going into Baltimore and that more of the Baltimore traffic would be coming into Dulles?

Mr. HOBBS. Absolutely.

Mr. HALABY. So you had the difficult problem of estimating between three airports used as gateways to the Washington area and you missed.

Now, whether you can get back on your investment and recovery schedule or not depends on the next 9 years when you estimated you could get into the break-even point—10 years from last year, 9 years from this year. So you have to generate some more business out there.

Mr. HOBBS. Yes, sir.

DRIVING TIME TO DULLES

Mr. JONAS. What is the travel time by limousine from the Congressional Hotel to Dulles?

Mr. HOBBS. The travel time from downtown, sir, as you can see right here [showing a chart]——

Mr. HALABY. Move over by the mirror, because you can't look against the light very well.

Mr. HOBBS. This is computed on daily schedules for 1 month and it turns out that the driving time to Dulles averaged 42 minutes. The

driving time to Friendship was 50 minutes, which is an 8-minute saving in favor of Dulles. The distance in miles, as you can see, is at the top. This was not done during a slow period nor during a rush period. It was done for 1 month all through the day and averaged out.

DROP IN ESTIMATED TRAFFIC

Mr. HALABY. Is it fair to say, Mr. Hobbs, that when you made the estimate you did not anticipate that the community leaders from Baltimore would conduct a vigorous campaign to gain flights and passengers at Friendship at the expense of Dulles?

Mr. HOBBS. Exactly, Mr. Halaby, and I wanted to touch further on that.

Mr. HALABY. Are you inhibited in any way from promoting that airport in the face of this kind of campaign?

Mr. HOBBS. We have no way of fighting back, only appearing on television, together. Mr. Crane and I are good friends, but there is no doubt that it has affected public opinion and has affected the airlines. They are in the quandry of not knowing exactly where to go.

Mr. JONAS. We can't really complain about them promoting their own airport.

Mr. HOBBS. Not at all, sir. It is proper of them. I am very fond of those people.

Mr. HALABY. The only problem is Mr. Hobbs cannot promote his airport because that is not part of Federal Government activity and it is the only airport probably in the country that can't promote its own profit.

Mr. EVINS. Do you allow the commercial carriers to select which of the airports they prefer to operate from?

Mr. HALABY. Of course. That is up to the public in the end. They choose where they want to take off and land, but they do it through the airlines who should and must, if they want to make a profit, reflect the public demand.

Mr. EVINS. How successful have you and others been in persuading the carriers to use Dulles' facilities?

Mr. HALABY. We have not tried to persuade them to use Dulles facilities. We have simply offered them the free and equitable opportunity and one of the grave difficulties is that the cost of using that airport is more than twice as high per thousand pounds of landing weight as the Friendship airport.

Mr. EVINS. One of the purposes of Dulles Airport was to divert traffic from Washington National, which was overcrowded and becoming a traffic hazard.

Mr. OSTERTAG. Isn't it true there is just so much traffic, Mr. Halaby, and when you start cutting it up between Friendship and Dulles, you have a situation over which you cannot exercise any great control? You have a problem, of course, of the airlines choosing Friendship as against Dulles in many instances. What can you do about it? That is where the traffic is and that is the way they use it.

CONCESSION CONTRACTS

Mr. HALABY. We also, I think, should point out that we have some pretty favorable—for the Government—concession contracts at Dulles

and they have proved to be less favorable to the concessionaires than the concessionaires hoped for. We warned them that this first decade would be a difficult one. Before they bid on the concessions we did this, but I think it is fair to say that more than half of them are disappointed at the realization on their investment to date. One of the concessionaires, the one that runs the restaurant out there, of course, is very anxious to see more passengers, but he is also more anxious than ever to get a liquor license and the lack of a liquor license he feels presents him with a problem. It prevents him from making a profit on his restaurant, attracting people who are not travelers but are visitors to the airport and so on. So this has been a very tough row for Mr. Hobbs and I don't think it is going to get any easier until we have a very great buildup of traffic in this area. If we are to allow jets into Washington National as many carriers, now that they are operating the Boeing 727, will insist upon, I believe, this would further alter the balance at Dulles.

Mr. EVINS. One further question, Mr. Hobbs.

REPLACEMENT OF HANGAR AT WASHINGTON NATIONAL AIRPORT

Why is it necessary to replace this hangar at Washington National Airport this year? Can't this be deferred? Is this an emergency item?

Mr. HOBBS. Yes, sir, I feel it is an emergency item, because we are in dire need of a second fixed base operator at Washington National Airport. Our general aviation from 1957 has moved from 28,000 flights to 73,000.

Mr. EVINS. You are not getting another hangar, you are replacing an existing one.

Mr. HOBBS. I am replacing it so it will accommodate larger airplanes. This hangar cannot take a big airplane, sir.

Mr. EVINS. You think you need to proceed with it now?

Mr. HALABY. How much are you going to make, a year, off of it?

Mr. HOBBS. Well, Mr. Halaby, I don't think at this moment that we can definitely give a figure here to the committee for rent plus percentage. We changed fixed base operators last year as you know, and presently enjoy a very good contract, receiving better than 8 cents a gallon on gasoline and a good percentage from their fixed base operation. Now, the aviation fuel that has been poured out there in the first few months of this operation, has been at an annual rate of over 3,200,000 gallons, which will exceed any quantity that has been poured before. We know, based on this fixed base operator's experience, a new hangar should bring us similar results.

Mr. HALABY. If you build a new hangar you lease space in it and you will recover your investment with interest.

Mr. HOBBS. Plus about 6 percent; yes, sir.

Mr. HALABY. And I hope a margin for reinvestment on that hangar. So it is a business investment. It is not just a public facility, there.

Mr. HOBBS. That's right. It will be a self-liquidating business investment.

Mr. EVINS. Thank you, Mr. Hobbs. Thank you Mr. Halaby and your very fine staff.

USER CHARGES

Mr. OSTERTAG. We discussed user charges before.

Mr. Halaby, did you call attention to the fact if we took into account the cost of services from the military and certain proposed taxes, users charges which were invoked, that your operations would be more or less self-sustaining?

Mr. HALABY. I don't thnk I can claim quite that much, Mr. Ostertag, but I think you have a very important point:

If we attributed to the military let's say $175 million worth of total FAA services year after year and we attributed to them a mobilization standby capability—that is readiness for defense operations of some amount, let's say another $75 million, that would be $250 million.

Now, if you say we recover from the revenues from the air carriers and other aviation operations $136 million, we then can fairly argue that we have approximately $390 million or $400 million of the budgets attributed to national defense or recovered in revenues.

If you were to pass the President's program for jet fuel tax, for passenger tax, for aviation gasoline tax, in the fiscal year 1965 you would increase that amount to $178 million and in fiscal year 1966 it would be about $212 million.

So I think you could state fairly, either by attributing to national defense, or revenues, that there is some half, or maybe 55 percent of this budget is covered.

Mr. OSTERTAG. It is a question of the method by which this revenue might be realized. Yet the point is that there are many services performed by the Federal Government in other areas wherein a direct service charge is applied against the beneficiaries or the users. Take, for example, the matter of bank examinations and things of that kind. There are many areas wherein the cost is charged back. But you are proposing, or the President has recommended specific excise-type taxes, which, of course, has been subject to elimination or reduction by the Congress in recent years. For example, transportation tax, hasn't that been reduced?

Mr. HALABY. It was reduced from 10 to 5; yes, sir. We do charge for title searches and for some of the work that we do specifically for the users. We think that the most equitable way to recover some of our costs is in the form of additional revenues on fuel.

GENERAL SUMMARY OF BUDGET REQUEST

If I could just sum up very briefly, Mr. Chairman, I would say this is our tightest and tautest budget yet. We have a 1.6 percent fewer positions in the overall. We have 3.3 percent less in staff and supporting services. We are searching for additional savings and when we find them we will make them, on your behalf. The only significant personnel increase is 162 positions in maintenance to maintain 550 new facilities. We can do that only because we are getting 4 percent more output per man in the maintenance service. There is a $15 million decrease in the request over 1964, in comparable appropriations. This would exclude the supersonic transport, of course.

It is true, as Mr. Jonas brought out, that this is lower than we sought from the Budget Bureau. They proposed and we have ac-

cepted the deferral of a substantial amount of money in the order of $60 million in facilities and equipment and research and development and that that be deferred until next year.

We have made a pledge to the committee over the last 3 years that we would bring our operations under management and cost control. We think we have done it by some very tough and painful measures such as consolidating centers and flight service stations.

We have reduced employment in the Washington headquarters level by 16 percent. In other words, one out of six positions in the Washington headquarters was eliminated in the last 6 months. I make only this plea, that you give us a credit for this effort and that if possible you not give us an arbitrary percentage cut but take into account the cuts that we have made, the pledge which we have kept to run you a lean, clean, and keen outfit.

Mr. JONAS. Mr. Chairman, could I ask a question?

Mr. EVINS. Mr. Jonas.

GAO REPORT ON OKLAHOMA CITY REPAIR OPERATIONS

Mr. JONAS. First, do you accept the findings of GAO about this reimbursable cost at Oklahoma City?

Mr. HALABY. No, sir.

Mr. JONAS. You disagree with them?

Mr. HALABY. Yes, sir.

Mr. JONAS. You cite a Budget Bureau circular and they do not construe it the same as you do.

Mr. DEAN. There is a fundamental difference between the Agency and GAO. This relates to how much charge we will impose upon other Federal agencies and others who might have their aircraft repaired at Oklahoma City.

We have been billing them only the additional cost to the Agency. GAO says we should also bill them partly for the nucleus cost.

Mr. JONAS. They say Budget Circular A–25 specifically states that—

> Direct and indirect costs, including depreciation of buildings and equipment and a proportionate share of management and supervision costs shall be included in the determination of the reimbursable cost and that each agency shall establish fees in accordance with this policy.

Mr. DEAN. Mr. Jonas, our general counsel has reviewed this and has advised within the Agency that the authority in our act to make arrangements with other agencies, and reimbursable if appropriate, is the governing authority that gives flexibility to FAA.

Mr. THOMAS. Why should you want any flexibility? The other agencies have to go to the same trouble to get their money as you. Why do you want to play Santa Claus? Why not charge all their costs? If they go to private enterprise they have to pay. Why play Santa Claus? Have we been giving you more money than you need and you want to pass it out to the other agencies? Does it come down to that?

Mr. DEAN. No, sir.

Mr. THOMAS. Spell it out. Why should you take a loss on the work you do for another agency?

Mr. DEAN. We do not. We charge another agency what it costs our agency to furnish that particular service. We always have done that. The argument is whether we should also bill them for a part of some $300,000 of nucleus costs as GAO describes them, at the aeronautical center.

Mr. THOMAS. If the other agencies did a little work for you what would be their element of cost?

Mr. DEAN. We have had many arrangements with the Department of Defense and they have been handled on exactly the same relationship.

Mr. HALABY. Isn't it, Mr. Chairman, simply whether the full Appropriations Committee picks it up or whether one or the other picks it up? The taxpayers have to pay the total cost anyway. If you appropriate for us the supervisors who supervise the maintenance work for that other agency down there, if we do not charge that other agency whose airplane we are repairing for those supervisory costs, it is true you have given them, that other agency, a little benefit.

But there is another committee upon which maybe Mr. Ostertag sits, who has to pick up that cost through the other agency.

Mr. EVANS. Any further questions, Mr. Jonas?

Mr. HALABY. What is the view of the committee? We will do what you say.

Mr. THOMAS. I imagine Mr. Jonas has expressed the opinion of the committee. We want everybody to pay their own costs. I would not work for them for nothing. They are not going to work for you for nothing, don't worry about that.

Mr. HALABY. When we get work over at Tinker by the Air Force do they charge us full costs?

Mr. DEAN. Mr. Moore probably knows that specific case. They are only incremental costs.

Mr. MOORE. Yes.

Mr. THOMAS. The Air Force never worked for anybody without a profit.

Mr. HALABY. If that is the wish of the committee, that is what we will do.

Mr. EVINS. Mr. Halaby, we hope you make your scheduled flight to the center in Oklahoma on time.

Have a good flight and a happy landing and good luck. This has been a fine meeting and we thank you.

THURSDAY, MARCH 5, 1964.

FEDERAL COMMUNICATIONS COMMISSION

WITNESSES

E. WILLIAM HENRY, CHAIRMAN
ROSEL H. HYDE, COMMISSIONER
ROBERT T. BARTLEY, COMMISSIONER
ROBERT E. LEE, COMMISSIONER
KENNETH A. COX, COMMISSIONER
FREDERICK W. FORD, COMMISSIONER
LEE LOEVINGER, COMMISSIONER
RALPH J. RENTON, DEPUTY CHIEF ENGINEER
HILBURT SLOSBERG, ASSOCIATE GENERAL COUNSEL
JAMES B. SHERIDAN, CHIEF, BROADCAST BUREAU
JAMES E. BARR, CHIEF, SAFETY AND SPECIAL RADIO SERVICES BUREAU
BERNARD STRASSBURG, CHIEF, COMMON CARRIER BUREAU
GEORGE S. TURNER, CHIEF, FIELD ENGINEERING BUREAU
CURTIS B. PLUMMER, EXECUTIVE DIRECTOR
RICHARD F. SOLAN, BUDGET OFFICER

SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	11,201	12,532	13,758
	Positions other than permanent	74	70	21
	Other personnel compensation	105	193	157
	Total, personnel compensation	11,380	12,795	13,936
12	Personnel benefits	847	939	1,008
21	Travel and transportation of persons	236	245	270
22	Transportation of things	44	50	55
23	Rent, communications, and utilities	525	440	470
24	Printing and reproduction	53	251	145
25	Other services	111	280	209
	Services of other agencies	148	149	90
26	Supplies and materials	72	366	213
31	Equipment	508	825	444
32	Land and structures	19	80	70
	Total costs	13,943	16,420	16,910
	Change in selected resources	1,259	−820	
	Total obligations	15,202	15,600	16,910

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	1,544	1,571	1,632
Full-time equivalent of other positions	19	18	6
Average number of all employees	1,386	1,474	1,554
Employees in permanent positions, end of year	1,377	1,508	1,603
Employees in other positions, end of year	85	42	25
Average GS grade	8.7	8.7	8.7
Average GS salary	$8,245	$8,712	$8,747

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Applied technical research and frequency allocation	846	1,143	1,150
2. Broadcast	2,949	3,771	3,947
3. Safety and special radio services	1,321	1,645	1,595
4. Field engineering and monitoring	3,696	4,686	4,779
5. Common carrier	1,508	2,006	2,269
6. Executive, staff, and service	3,368	3,169	3,170
7. Ultra-high frequency television project	255		
Total program costs, funded [1]	13,943	16,420	16,910
Change in selected resources [2]	1,259	−820	
Total obligations	15,202	15,600	16,910
Financing:			
Unobligated balance brought forward	−426		
Reimbursements for emergency preparedness functions		−16	−300
Recovery of prior obligations	−139		
Unobligated balances lapsing	314		
New obligational authority	14,951	15,584	16,610
New obligational authority:			
Appropriation	14,951	15,600	16,610
Transferred to "Operating expenses, Public Buildings service," General Services Administration (77 Stat. 436)		−16	
Appropriation (adjusted)	14,951	15,584	16,610

[1] Includes capital outlays as follows: 1963, $979,000; 1964, $613,000; 1965, $582,000.
[2] Selected resources as of June 30 are as follows:

	1962	1963	1964	1965
Stores	7	8	8	8
Unpaid undelivered orders	413	1,670	850	850
Advances	4	5	5	5
Total selected resources	424	1,683	863	863

Mr. THOMAS. Gentlemen, the committee will please come to order.

We have with us this morning our many distinguished friends from the Federal Communications Commission. We welcome our genial and able Chairman, E. William Henry, and the distinguished Commissioners: Rosel H. Hyde, our friend of many years' standing, Commissioner Bartley, likewise Commissioner Lee, Kenneth A. Cox, Frederick W. Ford, and Lee Loevinger.

We have also members of the staff: Ralph J. Renton, Deputy Chief Engineer; Hilburt Slosberg, Associate General Counsel; James B. Sheridan, Chief, Broadcast Bureau; James E. Barr, Chief, Safety and Special Radio Services Bureau; Bernard Strassburg, Chief, Common Carrier Bureau; George S. Turner, Chief, Field Engineering Bureau; Curtis B. Plummer, Executive Director; and Richard F. Solan, budget officer.

We shall ask this morning that Mr. Boland discuss with you your needs. We shall let Mr. Boland and Mr. Evins discuss your problems.

Mr. BOLAND. Have you a statement, Mr. Chairman? Do you want to tell us some of your problems? You may submit the statement for the record or you may give it to us verbatim, whichever you prefer.

STATUS AND PROBLEMS ON FEE SCHEDULE

What about your problem on fees? Were you up before the legislative committee on that?

Mr. HENRY. Yes, I testified yesterday before Chairman Rogers' subcommittee on H.R. 6697 which would prohibit the FCC from levying application fees which would take away our jurisdiction, which we think has been granted us by title V of the House Appropriations Act of 1952. We had what I would say was a fine meeting. We agreed that we had an honest difference of approach to the matter, and there was disagreement as to how it should be handled.

Mr. Rogers thinks that any fee schedules we impose should be imposed under a directive which originates in the Commerce Committee. We think that that may be a way to approach it and, if that is the way they feel the law should be amended, then we would be more than happy to have it done that way, but in the interim we should go ahead and impose the fee schedule, to which we have given a great deal of thought and have hammered out and which will go into effect March 17.

AMOUNT OF FEE COLLECTIONS

Mr. BOLAND. What is the total amount you anticipate collecting from fees?

Mr. HENRY. We anticipate collections the first year and pretty much on a regular basis, of $3,750,000. We will have approximately a $75,000 annual collection cost, which gives us a net of around $3,700,000.

EFFECTIVE DATE OF FEE SCHEDULE

Mr. BOLAND. Your present plans are to put the fee schedule in effect on March 17?

Mr. HENRY. March 17; that is correct.

Mr. BOLAND. Are you going to do this anyway, irrespective of the hearings before the legislative committee?

Mr. HENRY. Yes; we will do it anyway.

Mr. BOLAND. Proceed.

Mr. HENRY. If it suits your purposes, I do have a statement, and I would suggest that I just begin that statement and then, if there are questions along the way, we can take them up as they come, if that is satisfactory with you.

Mr. BOLAND. Fine.

Mr. HENRY. I will omit the first part about the fee schedule. As you indicated, that does go into effect March 17. The court stayed our original effective date 60 days because some of our licensees, the air transportation people, petitioned the seventh circuit, and that

circuit granted a 60-day stay. That now has been lifted. The court refused to grant a temporary injunction. They ordered us to wait a reasonable period before instituting the fee schedule, which we decided would be 45 days. They have also required that we hold all fees collected in escrow in the event our action is later overturned. That will be ruled on, we think, fairly soon.

General Statement

Our budget this year calls for $16,610,000, which is an increase of $1,010,000 over the appropriation approved by the Congress for the current year.

COST OF PAY INCREASE AND WITHIN-GRADE INCREASES

I might point out—and Mr. Solan can give you more specific figures—that of that $1,010,000, something like $270,000 is just for legislative pay increases. Periodic step increases due in 1965 result in new costs in fiscal 1965 of $115,000.

Annualizing periodic pay increases made effective during fiscal 1964 will result in $110,000 of increase.

So, quite a bit of it results from pay increases, rather than from increases in personnel or increases in other costs.

Mr. Jonas. Would you specify that a little clearer, Mr. Henry? You say $270,000.

Mr. Henry. Let me read you this item.

Mr. Jonas. Put a table in the record showing this. You have three different pay increases, you indicated.

Mr. Henry. Yes.

Mr. Jonas. I would like a little clearer statement.

Mr. Henry. The pay increases due to legislation made effective January 5, 1954, result in $270,000 of the $1,010,000.

Periodic pay increases effective in fiscal year 1965 resulting in new costs during fiscal year 1965, $115,000.

Mr. Jonas. By "periodic," you mean within-grade promotions?

Mr. Henry. Right.

Mr. Jonas. Proceed.

Mr. Solan. Required by law.

Mr. Henry. Periodic pay increases made effective during fiscal year 1964, in effect the full 12 months instead of a portion of the year, will increase the cost by $110,000.

Mr. Jonas. That is annualization of the $115,000?

Mr. Henry. That is correct. That is about the cost of those periodics in fiscal year 1964. In fiscal year 1965 they will cost another $110,000.

Mr. Jonas. That is all.

Mr. Henry. If I may, I will submit this table for the record.

(The table follows:)

The increase of $1,010,000 is made up of the following:

Pay increases due to legislation made effective Jan. 5, 1964, will cover full 12 months instead of 6 months, increased cost	$270,050
Periodic step increases effective in fiscal year 1965 resulting in new costs during fiscal year 1965	115,000
Periodic step increases made effective during fiscal year 1964 will be in effect for full 12 months instead of portion of year and will increase cost by	110,000
Quality pay increases made effective in fiscal year 1964 which will be in effect for full 12 months instead of part of the year, plus new increases for part of fiscal year 1965 will cost	18,000
Promotions of employees under training agreements, recruitment incentive plans, position reclassifications	59,250
Carrying forward for full 12 months, positions which were newly established in fiscal year 1964 (35 positions)	202,825
New positions for fiscal year 1965 (39 positions, 24.3 AE)	144,875
Total compensation	920,000
Benefits (retirement, life insurance, health plans)	52,000
Other obligations	38,000
Total	1,010,000

Mr. HENRY. We have covered the matter on the fees. That will result in the collection of almost 20 percent of our costs, recoverable net through the fee schedule.

STATUS OF COMPUTER PROGRAM

If I may, I would like to say a few words about our computer, our Univac III. We got that on October 22, 1963, and it was turned over to us in November for a 30-day check. I am pleased to report it was put to use immediately in testing out computer programs that were being developed during the past year and in converting FCC records from a variety of forms to magnetic tape.

On February 10, 1964, just about 1 month ago, we began the electronic processing of citizens radio applications and the printing of licenses. We now have a crash program underway to have the approximately 45,000 applications we had on hand in this service pushed through the computer to get us out from under the backlog. We expect that the pressures in this area will ease in 4 to 6 weeks.

Those can be done quite rapidly. I pushed the button on it the other day, and about 20 got through before I could turn it off.

This is a picture of the computer which we have spent approximately a million dollars on.

DELAYS IN PROCESSING APPLICATIONS IN SAFETY SERVICES

Mr. THOMAS. How far is Mr. Barr behind? He has this division.

Mr. HENRY. You mean in general?

Mr. THOMAS. Yes.

Mr. HENRY. He is pretty far behind.

Mr. THOMAS. I heard it was around 6 or 8 weeks. Is that a fact?

Mr. HENRY. It depends. It varies from service to service. You might interpret this for me as of the latest January report.

Mr. BARR. I do have that.

Mr. HENRY. What is the backlog in each area?

Mr. THOMAS. We are just talking of what we had in mind with respect to special services here.

Mr. BARR. It varies from a high in the amateur right now of around 85 to 90 days, which is because we are just getting ready to put them on the computer, down to a low on the order of 30 days, in public safety and aviation.

Mr. THOMAS. You had it down at one time to around 3 weeks, did you not?

Mr. BARR. It got up during December and January to near 3 months. We were concerned about it and are making special efforts.

Mr. THOMAS. Is this machine going to cut the timelag down?

Mr. HENRY. In citizens and amateur it will cut it down so we will be, for all intents and purposes, current. The amateurs, I am advised, go into the machine this morning, so that 85 days' delay will be reduced drastically.

Mr. THOMAS. That is certainly a step forward. Most of these people file it on Monday and want it the Saturday before Monday they file, and they cannot understand why they don't get it.

DELAY IN INDUSTRIAL SERVICE

Mr. BARR. The area you hear most about, probably is industrial applications. Those are the most complex. That is our major workload in terms of what we have to do with them, not in terms of number. They are highly important. Right now we have a rather extensive delay.

Mr. THOMAS. What is the delay? That is one that you really catch most of your grief on. It is important to industry and you worry about it. You want to give better service if it is at all possible, but, after all, it takes a little time. What is your timelag there?

Mr. BARR. It got up to 80 days in January.

Mr. THOMAS. That is too long. Can we get it back down to 3 weeks?

Mr. BARR. We are down to around 70 now.

Mr. THOMAS. Can you shift some of your personnel and cut down the backlog by teaching them how to use this computer? That is a thing that is talked about back in the districts in business circles, and it does not do any of us any good. You are a regulatory agency and your customers have to wait 3 or 4 months. Can you help us out there a little bit, Mr. Barr?

Mr. BARR. We are working on it, and we are getting some results already. As I say, it has come down from 90 to around 80. We will not hit the 30-day limit this year.

Mr. THOMAS. Those are hard words. We prefer to have your first words.

Mr. HENRY. We are well aware of the problem. We recently have taken some steps to ease the situation. I think when we get our computer in operation in other areas, this will free some people to get over into the ones that are not easily handled by the computer. We will get them substantially cut.

Mr. JONAS. Would you please, just for the record, explain exactly how you reduce time by the use of the computer? What part of the work does it accomplish?

Mr. HENRY. It is a long story, but I will try to shorten it as much as I can.

As I understand it, when we sought the computer and when we obtained it, we sought it on the basis that it would save, I think, 77 man-years over a 10-year period, and as time went along it would build up to more and more savings. Initially we are putting into it only the application processing type of material. We are beginning with the citizens band area, of which we get, I think, some 20,000 a month. We now have over 500,000 citizen band licenses. We are going to the amateur today. Following those are marine service in May, aviation service in July, and the public safety and industrial services later in fiscal 1965.

Mr. JONAS. I understand that.

Take the citizens applications which you are starting today. You feed these applications into the computer, and what does it come out with?

Mr. HENRY. It comes out with a license. It prints the license. The citizens band application comes in typed up or filled out in ink. We approve it and get a signature on it. All we do is feed that into the computer——

Mr. THOMAS. What do you mean by that?

Mr. PLUMMER. The basic theory behind it is that we put all the possible correct answers to the questions on an application on one tape. Then we take all the answers off the application and run them parallel and compare them.

Mr. THOMAS. What do you mean, take it off? What do you take it off with?

Mr. PLUMMER. The transfer device——

Mr. OSTERTAG. You mean you run it simultaneously with the correct answers?

Mr. PLUMMER. Yes.

Mr. OSTERTAG. If it does not have the correct answers, it does not come out?

Mr. PLUMMER. That is right. We get a license out on an answer that there are questions answered wrong on the particular application. The transfer device between the application and the computer is the standard IBM card puncher. You have seen them. It is something like this stenotype machine this gentleman is using here. All the data are transferred to IBM cards.

Mr. OSTERTAG. Do you have to look over these applications first before you feed them into the computer?

Mr. PLUMMER. We look over the applications for gross errors of things like the fellow forgot to sign it.

Mr. OSTERTAG. Would not the computer disclose that?

Mr. PLUMMER. No. This is an area that we look into very carefully. We could find no system whereby the computer would merely pick up the application and look at the particular answers and then

transfer data. The only system we saw was the Fosdick system that the Census Bureau uses. We felt that the error rate would be so high in the Fosdick system that manual transcribing from the application form to the computer was the only safe method.

Mr. JONAS. You have to look at every application and figure out all possible answers?

Mr. PLUMMER. All the possible answers that you can have are put on the tape ahead of time in the computer.

Mr. JONAS. You mean general answers?

Mr. PLUMMER. They are all "Yes" or "No" answers.

Mr. SOLAN. The questions are phrased so you get "Yes" or "No" answers or number answers, and the computer can determine if it is above a certain number or below a certain number. All the answers are stored in the computer?

Mr. PLUMMER. All the answers are stored in the computer, and we take off all the answers on each individual application and compare the two.

Mr. OSTERTAG. The computer is not like a lie detector. Suppose it is a dishonest answer?

Mr. PLUMMER. No. As Mr. Solan says, it compares "Yes" and "No" generally that are put on this tape.

ECONOMIES OF COMPUTER OPERATION

Mr. JONAS. That is really the only labor saving involved, then, is it not?

Mr. PLUMMER. It also does a lot of recordkeeping and saves copying, because you can get multicopies.

Mr. JONAS. We have been a little suspicious about that in here, because in most agencies they sell us on these computers on the basis that they are going to eliminate a lot of positions, and our experience is that employment keeps going up.

Mr. OSTERTAG. That is right.

Mr. HENRY. It does initially, because you have to have a computer division, which we have in Dr. Plummer's shop, which has new people.

Mr. JONAS. I am afraid I am not not going to be around here long enough to see you start down the other way.

Mr. HENRY. We planned it for 10 years.

Mr. THOMAS. Dr. Plummer, would you give Mr. Jonas an accurate answer. He wants to know about your time and energy and effort in handling that original application. Here it is, in the form of a letter or form. What do you have to do to it before you get the answer out of that? Do you not have to use just about as much labor feeding that information into that computer as you save? That is the question he is asking you.

Mr. PLUMMER. I would say it is a little less. We had to make a justification to the Budget Bureau——

Mr. HENRY. In other words, the answer is "No."

Mr. PLUMMER (continuing). For this computer, and we had to prove to them that on a long-term basis—I want to emphasize "long-term basis"—it would pay off.

MAN-YEAR SAVINGS

Our studies and the Budget Bureau studies came out that on about a 10-year basis it would save 77 man-years.

Mr. JONAS. You mean total, or per year?

Mr. PLUMMER. Total.

Mr. JONAS. A total of 77; that is about 7 a year.

Mr. SOLAN. That is 77 each year.

Mr. THOMAS. That is different.

Mr. JONAS. You do not reach that goal until 10 years.

Mr. OSTERTAG. How many did you have doing this in the first place?

Mr. SOLAN. We are not talking about just that much savings in Amateur alone. That would be in the broadcast areas, the records in the Chief Engineer's Office, the ownership files in broadcast. This covers the whole Commission.

Mr. OSTERTAG. I was trying to get your saving of 77 man-years out of a total of how many?

Mr. PLUMMER. 1,400.

Mr. HENRY. Once it gets built up to that, it will then save it every year it is in operation thereafter.

OTHER SIGNIFICANT ADVANTAGES OF COMPUTER

Mr. SOLAN. You might go into the computer program even though the computer might not save any money, because we are going to have records of all licensees which we do not have now. Manually we cannot keep records and provide the field stations with lists of who is authorized to be on the air. We will be able to provide monitoring stations with information as to who is licensed and when they are monitoring they will know. Now they do not have this information.

Mr. OSTERTAG. That is a different argument.

Mr. SOLAN. It is another argument. That is what I am saying.

Mr. JONAS. You might be able to sell it on that basis.

Mr. SOLAN. We did not overlook those arguments in our justification. We did not sell it on dollar savings alone.

Mr. HENRY. If I may, Mr. Chairman, I have a summary of the basis on which we justified the computer originally. If I may, I will insert that in the record at this point.

Mr. BOLAND. It may be inserted at this point.

(The statement follows:)

The purchase of a computer was justified to the Congress on four principal benefits.

(1) Saving in dollars over a 10-year period through reductions in staff. (We feel that this program would have been justified even if no dollar savings resulted because of other benefits.)

(2) Backlogs would be reduced in many areas because of the assistance provided by the computer in performing engineering compuations for AM, FM, and TV applications; producing automatic plotting of service and interference contours; automatic processing of many safety and special radio services applications; making easily possible the preparation of expiration notices to all licensees; and checking antenna data to insure air navigation safety.

(3) The Commission would have centralized magnetic tape files to provide easily accessible, current, and accurate data on all existing licensees and pending applications. (Information not presently available could be provided for frequency allocation problems and rules work).

(4) FCC field offices and monitoring stations could be provided with current information pertaining to all licensed communications facilities.

OTHER ADVANTAGES

(1) Insure uniform application of rules and regulations by eliminating inconsistencies of individual interpretations.
(2) Perform complex calculations otherwise impractical due to manpower limitations.
(3) Potential unlimited.
Areas of anticipated staff savings (some are evident in this budget because of estimates below fiscal year 1964 level and others reflected in the fact that increases that would have been requested have been omitted):

Safety and special radio services	31
Field Engineering Bureau	7
Office, Chief Engineer	6
Broadcast Bureau	33
Grand total	77

Mr. OSTERTAG. What does one of these computers cost?

Mr. HENRY. We have about a million dollars in it at the moment.

Mr. FORD. We never represented only that it would cut down employment. You have a summary there, so I will not belabor the point. We said we would be more efficient and could get our work done and could get an awful lot more work done with the same amount of money.

Mr. HENRY. It would keep us from adding employment. Slice it however you will, it is a true representation to say that it will save us 77 man-years, once it reaches its full potential; we hope.

Mr. THOMAS. It will sove more in later years. Take the Veterans Administration and its insurance division. We have gone through it with them. What they have done is overwhelming. We will give you gentlemen a little time, and it will do all right by you, too.

Mr. HENRY. Not to belabor it too much further, as Mr. Solan pointed out, it will enable us to keep a lot of records that we could not otherwise keep, and we think more accurately.

Further, it will eventually get into the predicting of service and interference contours. In fact, we have a glass window up there where the public, whoever finds their way into our building, can see the contours being drawn by the computer.

Mr. OSTERTAG. Does this apply to new applications as well as renewals?

Mr. HENRY. Yes. In fact, I would say it would first be used primarily for new applications.

BROADCAST ACTIVITIES

To get into the budget itself, I want to discuss first, if I may, the broadcast portion. It clearly reflects, we think, the direction of the President to hold budgetary requirements to the minimum. We are requesting an increase of only two positions for broadcast activities.

As we pointed out, we are relying in this area, as well as in the safety and industrial area, on the computer and automatic data processing. We are also relying on changes in Commission rules to facilitate processing, utilization of sampling techniques so that only a portion of renewal applications will be completely examined, and more selective participation of Broadcast Bureau counsel in hearing procedures. In

this way we are planning to bring down our backlogs, but we must have the staff requested in order to achieve these objectives.

For each of the broadcast services—AM, FM, and TV—we expect to have fewer applications pending at the end of fiscal 1965 than at the end of 1963 or 1964.

For example, in new and major changes in AM applications which appears at page 22 of the budget document, we had 464 applications pending at the close of 1963, mainly as a result of the AM freeze. This will be reduced to 110 by the end of this year. In fiscal 1965 we expect to lift the freeze, but we shall improve our allocation rules and have our computer assisting so that by the close of the year we expect to have the smallest backlog of AM applications for new and major changes in many years.

LIFT OF AM FREEZE

I might add, there is a possibility that we will lift the freeze before fiscal 1965, perhaps May or June, right at the end of this year in any event.

NUMBER OF AUTHORIZED STATIONS

Each year we have a growing number of authorized broadcast stations. In 1963 we had 6,199; and by the end of 1965 we expect to have issued authorizations for an additional 701 stations, for a total of 6,900. This steady yearly expansion affects our workload in many directions, resulting, for example, in a larger volume of renewals to be processed each year, and in a larger volume of required compliance activities.

NEW PROCEDURE FOR RENEWAL APPLICATIONS

I might add that it increases our workload in all areas of broadcast activities, transfers, changes or modifications, transmitter locations, and so on. Our overall workload rises along with the rise in the number of authorizations.

To cope with the annual growth in renewal applications, we are devising new procedures to separate items which must be reviewed in all renewal applications, such as ownership and complaints, financial situations, and so on, from other aspects, such as programing and commercial policies and practices, which we would examine for only a sample of the applications. An "in depth" examination of these latter items in a smaller percentage of the renewal applications may well prove to be both more effective and more economical of our very limited staff resources.

BROADCAST ENFORCEMENT ACTIVITY

In the enforcement area—again we are talking about the broadcast area—despite the increasing number of broadcast stations, we are proposing to maintain our complaints and compliance staff at about the present level. This staff is more than fully occupied in handling the complaints which the Commission receives and which require correspondence with licensees and occasionally on-the-spot investigations.

This procedure enables us to correct a number of significant violations of our rules, and such action will in time tend to bring about a general improvement in the level of compliance by all licensees.

Of course, this is in addition to the regular inspections made by our field bureaus. These are the investigations which result primarily from complaints. The number of complaints, the number of letters, is increasing, I think, as a result of increased public awareness of the FCC and its role, perhaps because of the increase interest in broadcasting in general and television in particular.

COMPLAINTS

Mr. BOLAND. What is the most common complaint?

Mr. HENRY. It varies. I suppose the most common complaint is about programing itself or commercials, which are not directly involved in the compliance division unless they allege some sort of infraction of the rules, which they usually do not. But it does not take very many complaints to keep our very limited staff available—how many do we have down there——

Mr. SHERIDAN. Thirty, I believe.

Mr. HENRY. We have very few field people who are qualified to go out and really handle something well to conclusion. It is a fairly complicated and sensitive matter, to begin with. They are constantly on the go.

Mr. OSTERTAG. Mr. Commissioner, are you speaking of complaints from the general public?

Mr. HENRY. Yes; primarily.

Mr. OSTERTAG. Or from within the industry?

Mr. HENRY. It varies. I do not know what the percentage would be. I would think they are primarily from the general public.

Mr. JONAS. How many, if you could estimate, of those who complain about commercials, advise that they would prefer pay TV?

Mr. HENRY. I would say almost none.

Mr. JONAS. Could you leave off "almost"?

Mr. HENRY. I have not examined them. If I examined them, I probably could say none.

Mr. OSTERTAG. They probably do not associate the two together. That is the reason.

AUTHORITY TO REGULATE CLOSED CIRCUIT TV

Mr. THOMAS. Since you raised the question, let us go into it. I would like to see that prizefight, but why in the world should I have to pay $2 or $3 or $4, which I did not do, to go out and see it? If you want to see Mr. Ruby shoot down some fellow in Dallas, Tex., all you have to do is turn it on and it is free. Perhaps one of the largest audiences in the world was looking at that.

Here is another matter which is of interest. Where do you draw the line? Why do you let the boxing people come in here and make a potful of money, and some other matter of interest as far as John Q. Public is concerned is all for free? What is the line of demarcation? I like that boxing business, but I do not like it well enough to get out of my chair and go downtown and pay $5.

Mr. OSTERTAG. Is your question, Mr. Chairman, associated with the FCC jurisdiction over closed circuit showings?

Mr. THOMAS. I do not know whether they have authority. I want them to express themselves on it.

Mr. HENRY. Theoretically, no, but in fact I think we could exert some jurisdiction in this field, for two reasons. One, it is carried over the facilities of the people we regulate, namely, the common carriers, and in practically every instance I would assume it was A. T. & T. facilities. Secondly, they use now not only the coaxial cable for television, but they have microwave links. Microwaves emit radio energy. Therefore, interstate communications under our act and, therefore, subject to our licensing jurisdiction. We license microwaves, not only for people who make a business of carrying television signals, but for general use, primarily through the common carriers. So, we do have substantial authority in this field.

As yet we have not exerted it. We are aware and are becoming more and more aware every day of the intertwining of microwave licenses, of the community antenna television situation, of subscription television possibilities with these, and so on. We are very much aware of it.

Mr. OSTERTAG. You have answered my question, but the chairman's question is pending.

FCC JURISDICTION OVER CLOSED CIRCUIT OPERATION

Mr. THOMAS. Let us talk about it generally. In comes the World Series. I guess there will be 50 or 75 million people in the United States watching the World Series. It is put on television free. Why do you not let those people charge a fee if you let the boxing people charge a fee? Where is the line drawn? What jurisdiction do you have? Can you say yes or no to the big broadcasting people? Have you that kind of authority any place in your act?

Mr. LOEVINGER. The issue has never arisen, Mr. Chairman. The boxing people did not seek or have any specific FCC authorization for their closed-circuit television. While Chairman Henry is quite correct in what he says, the FCC has up to now never exerted or tried to exercise any jurisdiction over what goes over common carrier cables.

Mr. OSTERTAG. Do you not have control over the rights to televise it?

Mr. HENRY. Over whom?

Mr. OSTERTAG. The promoters.

Mr. HENRY. Yes.

Mr. THOMAS. You have a delicate question of law there. What is the delicate point involved? Are you backing away on the theory you are attempting to regulate the program if you say you can or cannot charge a price? What is involved? What is indefinite in your act.

Will you read into the record at this point the act you rely upon if you maintain you have jurisdiction to say yes or no to the broadcasting firms?

Mr. HENRY. I do not know the specific section of the act, but it is the Communications Act of 1934.

Mr. THOMAS. What about it, Judge?

LIMITATIONS OF COMMISSION'S JURISDICTION

Mr. SLOSBERG. Under the act, we do not have jurisdiction of cable television which is transmitted within a State. The Commission exercises jurisdiction over interstate cable, as it does with the telephone company, but this has nothing to do with what is carried on the cable as such.

The fight that you mentioned was carried from the site on lines into theaters. As Judge Loevinger pointed out, there was no authorization from the Commission to do this. It was carried over the regular common carrier cable.

DECISION TO TELEVISE ON CLOSED CIRCUIT

Mr. OSTERTAG. But who decides whether or not it will be closed circuit or a general broadcast?

Mr. HENRY. Let me see if I can clear it up.

The proprietor does it. We have not backed away from the question. No one has come to us seeking a solution to it. It is really just developing. We are just now getting even ripples on the pond in this area.

The reason they did not come to us was the entrepreneur, the promoter, makes the original decision to carry the fight closed circuit. He makes the deal with the promoters and with the theater television people. They can go from the camera that televises the fight, all the way into the local theater without coming to the FCC, because it originally would come from the camera through some wires and out through the building and perhaps over a microwave. That microwave generally is licensed to the American Telephone & Telegraph Co. and carries a variety of content. It will carry a telephone message one day and then they will switch it to carry television, and then they will move it somewhere else and it will carry broadband data. No complaint has yet come to the FCC, saying: "I don't want the American Telephone & Telegraph Co., which is a common carrier, to carry a television signal on a closed circuit."

It is just now coming to the front. It is just now being called into question. It is a very complicated matter, and we just have not gotten around to discussing it seriously.

Mr. OSTERTAG. How about the right to broadcast generally rather than by closed circuit? Has anybody complained about the right of not being permitted to put this on television?

Mr. COX. No one has a right to use this show or this event without paying the people who control it for that right. At the same time the promoters were deciding to exhibit pictures of this on theater television, they agreed with ABC to broadcast it on radio. So, here advertisers who sponsored ABC's presentation of the fight paid ABC enough to enable it to bid for the rights to broadcast it orally, but apparently the networks either were not interested or felt they would have to go so high in order to get the rights that they could not recoup in one show the costs through advertising outlets, so they let it go by default.

For the world series, this is a matter which is much more traditional. It runs for a period of time. It builds up an interest. They

can insure the advertiser at least four games, maybe seven. So, there they have up to this point, at least, been able to command the situation. There is some danger if you got a national system of in-the-home pay television where millions of homes could be reached by wire, the pay promoters, the proprietors of the cryptic systems or the wire systems would go to the baseball leagues and would outbid the networks. Then you would have presented very directly the question of something that had been free being diverted to a pay scheme.

Up to now, the decisions have all been made by businessmen, advertisers, networks, broadcasters, people with facilities in theaters.

COMMISSION AUTHORITY OVER PAY TV

Mr. BOLAND. There is no question about your authority in the pay TV field.

Mr. COX. Not if it is over the air. There is no question there. I think, as perhaps the General Counsel's representative indicated, if they started presenting this interstate in a way which had a bearing on our efforts to develop and maintain a free television system, either we could find some jurisdiction or would come to you gentlemen and ask for it.

Mr. HENRY. I do not think there is any question that pay television, if it develops on a large scale, will be regulated. If we do not have authority, I am convinced the Congress will want to clarify the situation and probably give it to us.

Mr. OSTERTAG. You have no authority to regulate pay TV yet?

Mr. HENRY. Over the air we have. It was worked out with Congress, and the experiments were very limited in nature, and still are.

Mr. FORD. It boils down to the fact that the Government has never asserted the authority to direct that a public spectacle be put on one media or another. Once a particular media like free television or pay television or theater television or something else comes into play, then there are certain statutory and regulatory things that affect each media you may select. If you put it in a magazine, then the post office classes it as second-class matter. The Government has never undertaken the authority to direct that the owner of a particular event place it on one media or another.

I think that is the key to the whole thing.

METHODS OF TRANSMITTING PAY TV

Mr. BOLAND. Would pay TV be feasible in any other method except by over the air?

Mr. HENRY. Possibly by wire. Wire communications is now becoming cheaper and cheaper. When you get in highly dense areas of population, such as New York City or any large metropolitan area, you can wire an apartment house or even individual houses that are very close together, very economically. So if you can get the signal from the point of origin to that densely populated area, you are in business. This is what is going on in California at the moment. Although they have a plan out there to originate the local San Francisco Giants and Los Angeles Dodgers games, it is all closed circuit. It is all over wires. They are raising $25 million on this venture.

Mr. BOLAND. It will be a costly proposition to install this wire system?

Mr. HENRY. Yes; $25 million to do it. They feel they will get their monetary base through the sporting events. Then the field is wide open for the televising of any locally originated program in the areas which are wired.

POSSIBILITIES FOR PAY TV

Mr. BOLAND. It appears this type of athletic event, or an event which appeals largely to the public, sporting or otherwise, pro football, baseball, track meets, all this in the future would appear to be in the field of pay television?

Mr. HENRY. The potential is there. Nobody can say for sure. There is that potential, call it danger if you want to.

The matter is further complicated and the danger increased by the fact that now there are some 1.2 million homes, mostly small community homes, that are wired through community antenna systems. For example, Clarksburg, W. Va., is wired. It gets in signals from Pittsburgh, from Wheeling, and so on.

Mr. BOLAND. The signals on pay TV or closed circuit are carried from the camera to the viewer solely by wire?

Mr. HENRY. No. I would say for the most part they use microwave. Those microwaves——

Mr. BOLAND. I would think you would get authority here, then.

Mr. HENRY. That is right.

RIGHT TO REGULATE CONTENT OF MICROWAVE TRANSMISSIONS

The delicate point, if there is one, and it is not related to our feelings or desires in the matter, to be aware and alert to the situation, is that when you get into the use of a microwave by common carrier, traditionally they are common carriers by the fact they agree to serve everybody.

If they hold themselves out as available for service to everyone, then the regulatory body has not concerned itself with the content of what is carried.

In the same sense we are forbidden from censorship of free television. There are delicate questions of whether you regulate the content of the electronic transmission carried by the common carrier.

You also get into the question of directing a free broadcaster to carry or not to carry particular sporting events. There are many delicate areas involved, but it is all coming to the fore now.

TWO TYPES OF PAY TV

Mr. FORD. We should distinguish there are two kinds of pay television. There is one where the cable gives you all the programs for a monthly fee. The other kind charges for a specific program. The question was whether or not the specific program was feasible by cable.

I understand they have technically a means of scrambling and unscrambling when using wire just as they do scrambling and unscrambling a program that goes through the air.

You have to keep the two things in mind or you are confused.

Mr. LEE. I think this might be of some help. About a year ago the Stanford Research Institute made a study, one of their projections for subscribers, as to what would happen with pay television.

They concluded that by early 1970, and I speak now from memory, this would be a going operation at about a $3 billion level.

They also concluded that about 50 percent of the then nationwide pay TV systems would be by wire, the other 50 percent off the air.

They also concluded that the cost for off the air was only a fraction of the cost for wire, but that these people making these decisions were doing it on the basis of this—if we go wire we have no regulation. They may be wrong but this is part of their judgment.

They have to make a deal with the phone company to use the pole. They have to put the wire in there. Off the air you do not have to do that.

There are other research people who are agreeing in principle on the fact that this thing is coming whether or not you like it, and it will be a big thing, but are they disagreeing with the amount of it that will be by wire. They think it will be largely air.

Mr. COX. It costs you more to transmit the pay signal by wire. You have to stretch the wires and make the connection with the individual homes. It would be cheaper to install the set and broadcast.

On the other hand if you broadcast over the air you have to have a fairly extensive decoding device in the individual home.

When you get up to a certain level in a densely populated region you can very quickly overbalance the cost of installing the wire by the comparable costs you need at each installation if you are going to broadcast over the air; plus the fact that the wire system will permit you to offer a choice to the subscriber.

He can watch one of three or four things at the same time, whereas at the present time a single station can be broadcasting only one scrambled picture at a time. You take that or nothing.

There are some advantages to the wire system, in addition to the fact they do feel, at least initially, they can avoid regulation.

Mr. THOMAS. Regardless of the fine points of these research projects, picking out the advantages and disadvantages of one type over the other, what is the general consensus, if there is any at this time, as to the future of pay television generally as against free television?

(Discussion held off the record.)

Mr. HENRY. To get back to the original question, whether any complaints about commercials had been in favor of pay television, I think the answer is "No," and properly so. They are really not alternative matters. I think you can still complain about commercial television without advocating pay television as a substitute.

We do think there are some abuses there.

Mr. JONAS. Somebody has to pay for the program.

Mr. HENRY. There is no doubt about that.

Mr. OSTERTAG. Are you talking about your regulation of commercials, and so on?

Mr. HENRY. Not specifically. That is in the picture.

This highlights simply one of our many tough controversial, complex matters we have to deal with in the field of broadcasting. We

talked about pay television, community antenna television, and the interrelationship involved.

ALL-CHANNEL RECEIVER LAW

We are also in the process of implementing the all-channel receiver law which was enacted in 1962. We have put out a very complicated rule for adding channels to the nationwide allocation table for UHF.

In 1965——

Mr. OSTERTAG. I think it would be interesting to note just where you stand with regard to the all-channel receiver law, and when and how it is moving along.

Mr. HENRY. Commissioner Lee has been the engineer in charge of UHF. He has 10 speeches ranging from 5 hours down to 2 minutes.

If you could give him the 2 minutes.

Mr. LEE. Two minutes. The all-channel law gave us the authority to set regulations requiring that every set provide all channels. We worked out with the electronics industry, who oppose this legislation, by the way. After it was passed they did not appeal our action and agreed to work it out with us. We worked out rules whereby we agreed on the date of April 30, 1964, this year.

Mr. OSTERTAG. Are these rules for the manufacturer?

Mr. LEE. Yes; so every set shipped in interstate commerce after April 30 must be capable of receiving all channels.

We have gone to a great deal of pains to discourage so-called stockpiling, or any circumvention of the law. I personally visited all the plants. They are gradually building up so that, right at the moment, it might be 35 or 40 percent of production is all channel.

By April 30, they have all assured us in writing, they will comply, and that is how it will be.

REMOVAL OF EXCISE TAX ON TV SETS

We have also made quite a pitch, and the Commission in one of its rare moods agreed unanimously, without even a speech from Commissioner Ford, to support the removal of the excise tax from all-channel receivers for a temporary period.

The Chairman and I have had a series of conferences with the Treasury people. We have also visited the White House. We have stayed away from the Hill because we feel we should not lobby up here. We are anxiously awaiting to have somebody ask us about this.

Mr. OSTERTAG. Commissioner, are you saying that you favor the removal of the excise tax?

Mr. LEE. Right.

Mr. OSTERTAG. You have no jurisdiction over it?

Mr. LEE. That is right. We are supporting legislation that would take the impact from the public, from the consumer, because an act of Congress, which requires another gadget to go on, will mean that the man buying a set will be paying from $20 to $30 more, and 80 percent of the area of the country has no immediate possibility of UHF.

The people in Mr. Boland's district have been paying this extra $30 for all these years so they have been discriminated against.

We are asking for a temporary period, until these manufacturers can get their production up and reduce this cost, that the excise tax be

removed. It does not require the entire removal. It may be down to 5 percent instead of 10, for a temporary period. It would remove the impact to the public and hurry up the all channel receivers, put a lot of stations on the air, and create jobs and boom the economy.

Mr. HENRY. Then they will all be wiped out by pay television.

Mr. OSTERTAG. That would have to be done this year?

Mr. LEE. That is right.

Mr. OSTERTAG. If it were to mean anything it would have to be done this year?

Mr. HENRY. Not necessarily. There will be only a gradual implementation of everybody buying these.

Mr. LEE. We would like it to be as of April 30.

The Ways and Means Committee has announced they will have some hearings on all excise taxes. We think this is unique. We will get before them and make this strong pitch.

Mr. OSTERTAG. Let me say to you in that regard that as recently as yesterday the chairman of the Ways and Means Committee informed me that they were going to move ahead with a study of excise taxes but that there was little or no prospect there would be any major revision in the excise tax law this year.

Mr. LEE. That is generally true, and this is what Treasury says. We think this situation is unique. If they give us an early hearing, which we hope, we will make this presentation for this unique action to help us out for the 2-year period.

FUTURE OF UHF TV

Mr. OSTERTAG. When will this all-receiver matter actually become effective and where UHF is and will be as a result of it.

Is UHF coming in to any degree or will it follow?

Mr. HENRY. The receivers shipped in interstate commerce must be able to receive all channels after April 30, 1964.

There are many different views as to when and exactly at what rate UHF would develop.

We are doing everything we can to foster its development, to see that it is developed along the lines we have thought it should develop, to provide more choices to people, new stations to communities which now do not have them.

NUMBER OF UHF STATIONS

Mr. OSTERTAG. Are there applications for new stations?

Mr. HENRY. There has been a decided increase in applications for UHF stations, yes.

Mr. BOLAND. Have there been failures in the last couple years?

Mr. COX. In the last couple years, yes.

Mr. BOLAND. How many such stations are there in the United States?

Mr. LEE. Presently 90. There were, over the years, approximately 100 that folded up. Within the last year there is——

Mr. BOLAND. With a possibility of having how many?

Mr. LEE. If you say educational stations economically it is possible within the next 3 or 4 years to have perhaps 500 more stations on the air.

Mr. OSTERTAG. UHF?

Mr. LEE. Yes.

Mr. HENRY. That will be a big help to educational television. In Los Angeles it will be UHF for education.

Mr. LEE. It is technically feasible to have as many as 3,000. We have about 80 applications now in the top 50 markets.

We put a station on the air in Chicago within the last month. If it does not do very well there it will not go any place.

ALL-CHANNEL RECEIVERS ON MARKET

Mr. OSTERTAG. Are not these all-channel receiver sets on the market now?

Mr. LEE. Yes.

Mr. OSTERTAG. Why would anybody buy anything but an all-channel receiver at this point?

Mr. HENRY. They should not. We again have been working, as Commissioner Lee has stated, he is in charge of an inter-Government committee to make this clear to the retailers.

Mr. BOLAND. You can understand why they would buy it before the law. Some didn't have UHF. Who wanted it in New York?

Mr. LEE. When they can buy the set for perhaps $30 less, and they don't have the UHF station, anyway, this is what is bothering us and bothering the manufacturers.

Mr. OSTERTAG. Will this have a bearing on the price of existing sets? Will this affect the manufacturers and retailers and distributors? Aren't they going to have to take a loss on the existing sets?

Mr. HENRY. I think they will pretty well clear the pipelines and get rid of them and sell them VHF sets only.

I think you should buy a UHF set. You don' t know when such a station will come along even though there are no definite plans now.

Mr. BOLAND. They will not get rid of just the V receivers. They will sell them at a reduced price and get rid of them to people who are not interested in watching UHF or educational programing.

RESULTS OF UHF STATION EXPERIMENT IN NEW YORK CITY

This committee has given to the FCC considerable money, about $2 million for an experimental UHF station in New York.

I don't want to burden the committee now, and I don't want to burden you, either, but we would like to have for the record some indication of what you found out, and whether or not the expenditure of money was wise, and what it told you about UHF.

Mr. HENRY. We will be happy to provide you with a statement on that.

(The statement supplied follows:)

SUMMARY OF RESULTS FROM THE NEW YORK CITY UHF-TV STUDY

The New York City UHF-TV study of the technical and economic feasibility of UHF television coverage of a large, canyon-type metropolitan area has been completed. This project was conducted during fiscal years 1961, 1962, and 1963 under a $2 million appropriation by Congress.

A high-powered UHF-TV transmitter was operated on the Empire State Building with the antenna mounted on the same supporting tower as the local

VHF–TV stations. Operation commenced in October 1961 and ceased on November 1, 1962. On the latter date the Municipal Broadcasting System of New York City assumed ownership of the station and commenced regular TV serving using the call letters WNYC–TV.

Data were collected at about 3,860 locations within 25 miles of the Empire State Building, which area, being highly built up, was of principal concern. At each of these selected locations observations and measurements were made of picture quality and signal strength, not only on channel 31 (the UHF channel tested) but also on VHF channels 2 and 7 for comparison purposes. At 768 (nearly one-fifth) of the locations, actual home-type TV set installations complete with requisite antenna installations were used. Data were taken on observations by the installation crews as well as the householders.

In addition, two complete mobile signal level measurement surveys were made, one during the winter and the other during the summer. Each survey included measurements taken at a height of 30 feet for a distance of about 100 feet at about 340 locations on each of channels 2, 7, and 31. This information supplements that taken in the households, not only by overlapping the information obtained between 10 and 25 miles from the stations but also by furnishing data for greater distances.

Detailed reports which have been published on the project show that when using outdoor antennas there was very little difference in overall picture quality between channels 2, 7, and 31 within 25 miles of the Empire State Building. With indoor antennas, channel 31 gave acceptable service to slightly fewer locations than either channel 2 or 7.

At greater distances, as measured by the mobile vehicle, the signal from channel 31 diminishes more rapidly than those from the lower channels (2 and 7). In addition, behind obstruction the signal from channel 31 was affected more than signals from channels 2 and 7. This latter factor applies at all distances but is of little importance near the station (i.e., closer than about 25 miles) since there still remains adequate signal strength on channel 31 to provide acceptable service. At greater distances the effect of obstructions results in more locations on channel 31 where the signal is too weak to provide acceptable service (using normal types of home installations) than is the case on the lower channels.

As a byproduct of this project, additional data were collected which are being analyzed and further detailed reports will be issued from time to time.

EFFECT OF ALL-CHANNEL LAW ON UHF TV

Mr. OSTERTAG. This is a fundamental and basic change in the whole concept, recognizing that the answer grew out of the expansion of the so-called UHF system. You had a limitation on VHF and if you were going to go along with VHF you had to have some means by which it could be employed.

You finally arrived at this approach of all-channel receivers to further the development of UHF. Is that correct?

Mr. HENRY. Yes.

Mr. OSTERTAG. Do you still believe that you are on the right track and do you believe this was a good law and there are no disappointments up to now?

Mr. HENRY. I think we are convinced it was a good law and it was the best possible solution. It was a practical solution, and it has some drawbacks, however. Namely it imposes a requirement on the manufacturers which results in a price increase, at least initially.

I think we are all agreed that this was the best course to follow at the time.

Mr. THOMAS. Mr. Boland, are you going to have discussion with Commissioner Bartley about results of that New York experiment? They called it the Ford-Bartley-Lee experiment?

Mr. BOLAND. Commissioner Lee was almost like a voice crying in the wilderness.

(Discussion held off the record.)

COOPERATION IN PROMOTING UHF

Mr. LEE. I would like to say something about Bill Putnam, your constituent.

I would like to say in connection with the improvement in the UHF picture that we have had considerable help from your constituent, Mr. Bill Putnam, from Springfield, working on one of the industry committees with us and devoting a great deal of his time. He is a recognized leader in this UHF field and only a few years ago he had few people listening to him and now there are many.

Mr. BOLAND. I am glad to hear you say that. He has good programing on his station up there and I think he has done a good job. He was an embattled leader in this fight and had his difficulties a long time ago.

RESULTS OF UHF TV EXPERIMENT IN NEW YORK

Mr. THOMAS. Did Mr. Lee get his money's worth?

Mr. BOLAND. Can you give us a 2-minute capsule recitation on this New York experiment?

Mr. LEE. As I recall, Mr. Chairman, we asked for something in the neighborhood of $2.7 million, and the committee gave us $2 million. We turned back $300,000.

We were able to turn this money back by reason of the fact we worked out an arrangement with the city of New York, who took over the operation of the station. They are now running it as a very good municipal station. We were happy to return this money to the committee, and I think it reflects your expertise in knowing how much it would take even more than we did.

Mr. THOMAS. Did we get our money's worth?

Mr. BOLAND. Not out of the sale of the equipment in New York.

Mr. THOMAS. Was the experiment worth it?

Mr. LEE. As a generalization, and we can supply a technical analysis (see p. 1348) we concluded from some 5,000 measurements that were made under contract with Jerrold that within the 25-mile radius of the Empire State where the transmitter was located there was no significant difference between the U and the V signal. At something like 7 percent of the locations an outdoor antenna was required for the U where it was not for the V, but this is not a significant difference, and in all instances in New York everyone is better off with the outside antenna.

Beyond the 25-mile area we have not made any specific report although we have made some measurements. I think the maximum service people, the private group, are making some measurements outside the 25-mile radius.

We know it will drop off before the V signal drops off. Our significant conclusion was that it can serve well a highly built up metropolitan area with a good installation.

STATUS OF UHF–VHF DEINTERMIXTURE

Mr. BOLAND. One more question with respect to some thinking on the part of the Commission. A year or 2 years ago they were reducing V's and going to U's.

Mr. LEE. We have pretty much agreed with the Congress that we will not undertake that move which was part of the package, and in exchange for not undertaking that move we actually got the all-channel receiver legislation.

I would say we are committed for 5, 6, or 7 years to leaving these existing V's alone.

STATUS OF FEE SCHEDULE

Mr. EVINS. I would like to hear about the general monopoly picture in the industry and also tell us about the schedule of fees.

This committee has urged the FCC over the years to establish a set of fees. We don't want to go uphill one day and downhill the next.

You are giving valuable franchises and licenses. It seems to me reasonable fees would be in the public interest and they would be proper to defray some of your expenses.

Have some acquired monopoly control? What are the rules with respect to consolidation, integration, and acquiring monopolies in the field?

Mr. HENRY. Let me answer generally and then Commissioner Loevinger can add his comments.

First on the subject of fees, there was some dissension among the Commissioners as to the desirability of enacting a fee schedule without specific legislation on this point. The majority felt it should be done, however, but that it should be nominal, that it should not in any way be classified or construed as a revenue measure but simply as a method of collecting some reasonable amount of service charge for the cost to the Government, plus benefit rendered to the licensee.

We did institute the system and it will get us about 20 percent of our operating budget back this year.

We think it is reasonable, therefore, and we have no intention of changing that schedule in the near future.

The fees for the broadcasters in relation to the amount of money earned by the broadcasters generally speaking is very, very low, but there again we wanted to keep it nominal.

MONOPOLIES IN BROADCAST

In the field of monopoly and economic control, the number of stations per community is pretty well limited by technical considerations. We have an allocation plan which we think provides optimum service to the country as a whole. That pretty well determines which channels are assigned to which communities, so the question of monopoly gets down as to who shall own those channels.

There has been increased interest of late at the Commission on this subject. It was sparked recently by the transfer from Trans-Continent Co. to Taft Broadcasting Co., the Midwest Broadcasting Co., and to Time-Life Broadcasting Co. of several stations involving an overall price of around $38 million, I think.

Our staff has been directed to study this problem intensively and to make a report to the Commission. We expect that report will be before us for consideration in approximately 1 to 2 months. We will just take another long, hard look at it.

Mr. LOEVINGER. What Chairman Henry has said is certainly correct, and I concur with what he has said.

CONCENTRATION OF CONTROL

I have been concerned with the question not so much of technical monopoly, which I think does not yet exist in broadcasting, but with the concentration of control in fewer hands.

There is some tendency for the big, lucrative stations to come into the hands of large multiple owners, for these large multiple owners either to be or to become affiliated with or sell out to large national corporation with interests in other fields.

This tends toward an increasing concentration of economic control which is, I think, particularly sensitive in the communications field. It is the kind of thing which Congress has indicated as a governmental policy should be carefully watched and limited.

I think that the policy expressed by Congress in such things as the Celler-Kefauver Act certainly applies in the broadcasting field.

There are complex issues involved here. Sometimes the Commission disagrees in particular cases, but I think that in the last few months the Commission has fairly unanimously agreed that the entire subject does deserve and require examination. New aspects of the matter have either developed or been discovered quite recently within the last couple months in connection with intercorporate relations. A transfer was proposed to a large multiple owner which had widespread stock ownership.

It was discovered in the course of examination and probing and discussion about this transfer that there was a technical violation of Commission rules through cross-ownership of the stock of this corporation.

Apparently nobody had particularly thought about this aspect of it before because the ownership of licenses by widely held corporations is a relatively new thing and the transfer and trading in stock is a relatively recent thing, and this aspect simply had not come under examination.

There is a notice of public inquiry that the Commission is getting ready to issue with respect to this specific phase of it, and the entire question of multiple ownership and a concentration of control the Commission has agreed to review within the next few weeks.

I think we are faced with a situation which, while not perfect, is very hopeful. Speaking as one who has been an antitrust enforcement man, and is still deeply imbued with the free enterprise and antitrust velocity, I believe in broadcasting we are at a stage where it is still possible to prevent undue concentration of control. The concentration of control has not yet progressed to the point where we would have the very difficult situation of forcing the breakup of a lot of big enterprises.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. OSTERTAG. As the Commissioner has described, there are circumstances wherein you have these intercorporate relations and you have these large corporations owning and operating other news media or means of communication like television or radio or a newspaper or a combination of the three. But what I think ought to be made clear, has there been any bad experience as a result of it? What has been so wrong about it? This is aside from the standpoint of monopoly because if you have a license you have a monopoly whether you are a corporation or a newspaper or anything else.

Mr. LOEVINGER. Not necessarily. If we license half a dozen in one town you have a fair degree of competition.

Mr. OSTERTAG. If you are talking about competition that is one thing, but if you are talking about big corporations owning these stations that is another thing. I am raising the question because you have expressed yourself on the other side of it. But has it been bad by experience or practice?

Mr. HENRY. There have been serious examples of abuses that have resulted from it, yes. A number of years ago we found examples of joint rates between the newspaper and the radio or television station, interdependence of advertising, and so on. We know of instances—I cannot recall any specific one at the moment—in which the editorial line is the same, and so on. The fact we do not know for sure is one of the big dangers.

Mr. JONAS. The potential is it can control the thinking of the whole community.

Mr. HENRY. The potential is there and we cannot possibly supervise it and we do not want to supervise it.

Mr. OSTERTAG. Would that be where the means of communication are exclusively in the hands of one corporation or group?

Mr. HENRY. Where in one community you have the newspaper and the television station or radio station all owned by the same group, then you have the instruments of expression within the control of one group. That is one aspect of it. Another aspect is if you have one group that controls television stations in the major markets across the country; they have access to millions and millions of American homes even though there is competition in each of the cities in which they operate. It is basically a philosophical approach rather than one based on documented abuses.

Mr. LEE. There is another argument with respect to newspaper ownership and that is that there has been a tendency over the years for more and more newspapers to fold up. If the only newspaper gets the only television station and the only AM station in a city, I am against that. However, a newspaper-owned station rarely changes hands. We do not have the trafficking problem. It becomes a part of the community and this is good. By and large they are operated very well and I suspect in many cases they are supporting the newspaper. A few years ago we had two morning newspapers in Washington, and the only who survived was the Washington Post, who had a facility.

Mr. OSTERTAG. You have two newspaper-owned stations in Washington, one by the Evening Star and the other by the Washington Post.

Mr. LOEVINGER. Washington is one of the few large cities that still has newspaper competition. Approximately 25 or 30 years ago every major city had competing newspapers. Today there are only 8 or 10 American cities that have competing daily newspapers. So if there is going to be any diversity in the expression of viewpoint and if there is to be any competition in bringing viewpoints to the public, it has to be brought by the broadcasting station.

Mr. FORD. We have about 1,800 daily newspapers and we have roughly 6,000 radio FM and television stations. The figures are roughly 37 percent of the licensees involved in newspapers, have radio or television, too, and so on. That figure has remained fairly constant in the last 20 years since Congress examined the whole question when the Commission was proposing to do something about it. I think the increased percentage is going down slightly now.

Mr. BARTLEY. If you take the major markets, I do not think those statistics would apply.

NEWSPAPERS AFFILIATED WITH BROADCASTING STATIONS

Mr. JONAS. Are statistics available to show how many daily newspapers in the country have close affiliations with broadcasting stations?

Mr. HENRY. We can get up a set of statistics for the record if you would like to have them.

Mr. JONAS. Yes; I would like to see that.

Mr. LOEVINGER. Congressman Celler is investigating that and I think some data can be gotten on that.

Mr. THOMAS. Let us put that in the record.

(The information supplied follows:)

There are 507 daily newspapers affiliated with broadcast stations. Of these, 336 are located in the same city as the broadcast station with which they are affiliated.

Mr. OSTERTAG. Off the record.

(Discussion off the record.)

Mr. BOLAND. Is there anything you would like to add?

Mr. HENRY. Not at this point. I was going to go ahead with the statement.

GENERAL STATEMENT OF CHAIRMAN HENRY

Mr. BOLAND. We will insert your complete statement at this point in the record.

(The statement follows:)

STATEMENT OF CHAIRMAN HENRY

Good morning, Mr. Chairman and members of the committee.

Our estimate calls for $16,610,000 or an increase of $1,010,000 over the appropriation approved by the Congress for the current year. The major staff increases proposed in this budget are for our common carrier and field engineering activities. In developing our budgetary requirements we have followed the wishes of the President to hold estimates of money and manpower to absolute minimums. We have applied a most stringent policy in the face of mounting workloads in many areas of the Commission's work.

It is our intention to do everything we can in the way of improving procedures, making better utilization of manpower, and eliminating low priority and nonessential operations, but notwithstanding our efforts in this regard, there is urgent need for increased appropriations.

FEE SCHEDULE

Before getting into a discussion of our budget request, I would like to bring you up to date on our proposed fee schedule. When we were here last year we told you that we had under consideration a proposed schedule of fees to be charged for filing applications for various types of licenses. Since that time the Commission approved a fee schedule and set January 1, 1964, as the effective date. In the interval between our approving the fee schedule and the January 1, 1964, effective date, action was taken by a group of Commission licensees to have the Commission's action stayed and on December 31, 1963, the U.S. Court of Appeals for the Seventh Circuit issued a 60-day stay of the Commission's order.

Subsequently, following oral argument in Chicago, the court of appeals denied a motion for interlocutory injunction pending disposition of the joint petition for review which was brought to set aside the Commission's action in adopting the fee schedule. The order of the court also dissolved the 60-day temporary restraining order it had imposed on December 31, 1963.

In its order the court directed that all funds collected prior to final disposition of the petition for review be held aside in a deposit fund account and provisions made for the Commission to return to the appropriate payors any fees which are found to be invalid by the court.

On February 14, 1964, the Commission considered the action of the court and issued a public notice that its schedule of fees will become effective on March 17, 1964. This is just 12 days from today.

DATA PROCESSING PROGRAM

Next I would like to say a few words about another significant development since we last met with you. This deals with our data processing program. On October 22, 1963, our Univac III computer was delivered to the Commission's office for installation, and on November 15, 1963, turned over to the Commission for a 30-day acceptance test. I am pleased to report that it was put to use immediately in testing out computer programs that were being developed during the past year and in converting FCC records from a variety of forms to magnetic tape.

On February 10, 1964, just about 1 month ago, we began the electronic processing of citizens' radio applications and the printing of licenses. We now have a crash program underway to have the approximate 45,000 applications we had on hand in this service pushed through the computer to get us out from under the backlog. We expect that the pressures in this area will ease in 4 to 6 weeks. weeks.

By the end of this week the computer will take over the processing of amateur applications and the printing of these licenses. Within a short time we should also be in pretty good shape in this service, too.

Also, on about February 20, we "computerized" the processing of applications for our antenna survey function; that is, the checking of proposed antennas as air navigaiton hazards.

FUTURE PROJECTS FOR COMPUTER

Future goals for the conversion of application handling to the data processing system are the marine service in May of this year, the aviation service in July, and the public safety and industrial services later in fiscal 1965. We also plan to have the broadcast station and individual ownership files on magnetic tape for use by the Commission's staff next month. In addition, our programs for performing engineering computations for AM, FM, and TV facilities, such as radiation and service contour patterns and channel studies, are also scheduled for late this month or early next month.

BROADCAST ACTIVITIES

Now back to the budget we are placing before you today, for your consideration. The broadcast portion of this budget very clearly reflects the directive

of the President to hold budgetary requirements to a minimum. We are requesting an increase of only two positions for Broadcast activities. However, to handle the increasing workload, we are relying on greater use of automatic data processing, changes in Commission rules to facilitate processing, utilization of sampling techniques so that only a portion of renewal applications will be completely examined, and more selective participation of Broadcast Bureau counsel in hearing procedures. In this way we are planning to bring down our backlogs but we must have the staff requested to achieve these objectives.

APPLICATION PROCESSING

For each of the broadcast services—AM, FM, and TV—we expect to have fewer applications pending at the end of fiscal 1965 than at the end of 1963 or 1964. For example, in new and major changes in AM application (p. 22 of budget document) we had 464 applications pending at the close of 1963; mainly as a result of the AM "freeze" this will be reduced to 110 by the end of this year. In fiscal 1965 we expect to lift the "freeze," but we shall improve our allocation rules and have our computer assisting so that by the close of the year we expect to have the smallest backlog of AM applications for new and major changes in many years.

INCREASE NUMBER OF AUTHORIZED STATIONS

Each year we have a growing number of authorized broadcast stations. In 1963 we had 6,199 and by the end of 1965 we expect to have issued authorizations for 701 additional stations for a total of 6,900. This steady yearly expansion affects our workload in many directions, resulting, for example, in a larger volume of renewals to be processed each year and in a larger volume of required compliance activities.

REVIEW OF RENEWAL APPLICATIONS

To cope with the annual growth in renewal applications, we are devising new procedures to separate items which must be reviewed in all renewal applications (such as ownership and complaints) from other aspects (such as programing and commercial policies and practices) which we would examine for only a sample of the applications. An indepth examination of these latter items in a small percentage of the renewal applications may well prove to be both more effective and more economical of our very limited staff resources in renewal work.

COMPLAINTS AND COMPLIANCE ACTIVITIES

In the enforcement area, despite the increasing number of stations, we are proposing to maintain our complaints and compliance staff at about the present level. This staff is more than fully occupied in handling the complaints which the Commission receives and which require correspondence with licensees and occasionally on-the-spot investigations. This procedure enables us to correct a number of significant violations of our rules, and such action will in time tend to bring about a general improvement in the level of compliance by all licensees.

PENDING POLICY MATTERS

In addition to expecting a steady growth in broadcast stations, we must face each year's inevitable quota of tough, controversial, complex policy issues. The outlook for 1965 is that we will have our full quota of such problems. We will be engaged, for example, in revising our nationwide UHF allocations, providing additional assignments for both educational and commercial stations. This new allocation plan will shape the growth of television service over the next decade and longer. We will be concerned too with the proliferation of the CATV operations and their effects on the development of healthy local broadcast stations. And we expect to be faced with petitions to permit subscription television to operate on a regular commercial basis. Also, we shall be examining our multiple ownership rules to determine whether they are sufficient to deal with the increasing extent of multiple ownership particularly in TV. Growing out of the network study which was authorized by Congress are a number of proposals before us to foster additional program sources and to increase the opportunities for UHF stations to obtain access to quality programing. Finally, in the first

4 months of 1965, I need hardly remind this committee, we shall be in an election year, and inevitably we shall have a peak of section 315 complaints to resolve equitably and with the least delay.

In the light of all these activities, our budgetary request in the broadcast area is indeed minimal.

COMMON CARRIER ACTIVITIES

In the area of common carrier regulation, the Commission's tasks continue to grow in volume and complexity. This, clearly, is the natural outgrowth of new and rapidly growing requirements for communications of all types. The industry has been enlarging and improving its plant and expanding its operations in order to satisfy this burgeoning public demand for more and better communication services., These activities generate for the Commission an ever-increasing volume of new and revised tariff filings and applications for authorizations to construct and operate radio and wire facilities. To keep our backlog in these areas from growing to unmanageable and intolerable proportions, requires that we continually devote added manpower to these matters.

DOMESTIC TELEGRAPH

However, many of the most significant regulatory activities generated by these developments in the industry cannot be measured by applications or tariff filings.. Thus, for example, conditions in the domestic telegraph industry compelled us to institute an investigation for the purpose of ascertaining the future requirements for message telegraph service in the United States and the ability of Western Union to satisfy that requirement. These proceedings, which are well underway, involve an intensive examination of the competitive relationship between Western Union and the Bell System in light of the charge that the Bell System has engaged in selective pricing policies to the detriment of Western Union.

DOMESTIC RATE REGULATION

In the field of domestic telephone rate regulation, we face a task which is now of staggering proportions and which continue to expand. The American public now pays more than $2 billion in charges for more than 1.2 billion domestic telephone calls it makes annually. We are charged with the responsibility of taking those steps which will assure to the public interstate telephone rates that are fair and just. We must examine the carriers' interstate operating costs, depreciation, investment, and earnings. We must examine the rates charged different classes of users to insure that there is fair and nondiscriminatory treatment. As we have stated on a number of occasions in the last several years, we are not satisfied with the level of regulatory effort we have been able to maintain in this area. We need to devote additional effort to it if the public is to have the assurance of reasonable and just treatment which the law requires.

SATELLITE PROGRAM

The communications satellite program is now well along. The Communications Satellite Corp., is established and on the threshold of a major financing program. It is also negotiating for the launching of an early satellite capability having the prospect of limited commercial service in 1965. The developments in this field bring into play the many new regulatory responsibilities assigned to the Commission by the Communications Satellite Act of 1962. For example, we have recently promulgated regulations designed to insure the maintenance of effective competition in the procurement of equipment and services required for the satellite system and its ground stations. We anticipate a filing this month of the first application by the Satellite Corp. for approval of the technical characteristics of the initial capability. The development of governmental policy with respect to future international participation in the global satellite system contemplated by the Satellite Act has required the Commission to devote substantial time and personnel to this important planning program. As the satellite system approaches the stage at which it will be furnishing commercial service, the Commission will, of course, also have numerous ratemaking and related responsibilities to fulfill—all of this, of course, in a relatively new and uncharted field of regulation.

INTERNATIONAL COMMON CARRIERS

The advent of satellites as a means of international communication has also underscored a need for a careful reexamination of the existing international common carrier industry to determine whether that industry, as now structured and operated, is fully compatible with the realization of the national communications policy objectives enunciated in both the Communications Act and the Satellite Act. This also involves the evaluation of proposals recently made by responsible industry spokesmen in favor of various kinds of mergers in the international common carrier field. This will be a major 1965 activity which will be conducted in cooperation with other interested Government agencies and we hope will culminate in a useful report with recommendations to the Congress from the executive branch.

STAFF INCREASE FOR COMMON CARRIER ACTIVITIES

The increase of 23 employees included in this budget for common carrier activities is a continuation of the 4-year program initiated in fiscal 1964 to bring the staff to a level that will more adequately support a continuing program of effective common carrier regulation.

SAFETY AND SPECIAL RADIO ACTIVITIES

In common with the electronic industry as a whole our safety and special radio services have had, and are continuing to have, a phenomenal growth. To illustrate this growth let me quote a few figures. In 1956 we had a total of 339,000 authorized stations and received some 170,000 applications during the year. The present-day total of stations is over 1¼ million, and applications are currently being received at a rate which will reach the 600,000 mark in 1964 and 616,000 in 1965.

Through the safety and special radio services which encompass all of the non-Government uses of radio for which a license is required, except broadcasting and common carrier operations, some 45 different communications services are provided, all of which play an indispensable part in the many activities making up our present-day civilization. Radio communication, navigational, and control devices are an integral part of air, land, and water transportation systems. Industrial operations, manufacturing, and public safety communications systems are finding new uses for radio every day.

As the number of authorizations and applications increase, the regulatory and enforcement problems also increase. Of particular concern is the fact that the demand for mobile communications systems in many areas has filled the limited spectrum space available. Ways and means to accommodate the increasing numbers must be found. This now constitutes one of the principal problems facing the Commission, and we are hard pressed to solve it.

FIELD ENGINEERING ACTIVITIES

The impact of the growth of these services is not felt in the Safety Bureau alone but the workload of the Field Engineering Bureau grows just about proportionately. During 1963 the Field Bureau issued over 300,000 operator licenses, issued approximately 17,000 interim ship station licenses, processed 25,000 applications for antenna markings and lightings, inspected over 1,600 broadcast stations, 8,000 other than broadcast stations, and received over 40,000 interference complaints.

The management survey report of Booz, Allen & Hamilton was critical of the Commission for not giving more attention to its enforcement problems and to the growth in interference complaints. In consequence, a material increase in personnel for the Field Engineering Bureau was recommended by the survey team. Although we are attempting in our budget to meet the principal objectives of the BAH recommendation, a number of increases previously scheduled are being further postponed.

STAFF INCREASES FOR FIELD ACTIVITIES

In total we are asking for an increase of 31 for the Field Engineering Bureau for fiscal 1965. Of this number 24 are related to enforcement work and 7 to monitoring. The increase under enforcement is intended to bolster our efforts to get

compliance with the Commission's licensing requirements and to handle the ever-increasing number of interference complaints. An indication of the seriousness of this problem is that an estimated 50 percent of the current cases are not being investigated because of lack of sufficient staff.

An increase of only seven is requested for monitoring. It is in this area particularly that we are postponing the implementation of the BAH recommendation to increase staff. The small increase requested is intended primarily to augment surveillance in those areas where the most serious disregard for the Commission's regulations exist.

In conclusion, Mr. Chairman, let me repeat that we fully realize the dimensions of the overall budgetary problem which the Federal Government faces. We have limited our requests for increased appropriations to areas of the most pressing need. We believe that the request now before you represents a sound and conservative judgment of the resources which we will need in fiscal 1965 if we are to carry out effectively the duties which the Congress has assigned to us.

Mr. OSTERTAG. Mr. Chairman, before you go into the justifications, may we raise other general questions?

Mr. BOLAND. Sure.

FCC AUTHORITY OVER ADVERTISING

Mr. OSTERTAG. There has been considerable concern about the use of television as a media of advertising. This raises the question of responsibility for false and misleading advertisements. I realize the Federal Trade Commission has a certain responsibility and jurisdiction in this area, but to what extent does the Federal Communications Commission exercise authority in connection with these practices which are obnoxious to the people or are detrimental to the people?

Mr. HENRY. Our basic jurisdiction arises from the part of the law that says we are to see that the stations are operated in the public interest and we are to decide on the nature of the service rendered by each classified licensee. On the other hand, section 326 of the law says we are specifically prohibited from censoring programs. So our efforts are couched in terms of seeing to it that the broadcasters serve the interests of the community. You can hardly get it any more specific than that. There are certain exceptions to that. The exceptions are obscenity, fraud, and so on, over which we have full power to prevent licensees from engaging in this sort of thing. If an instance of fraud or misrepresentation comes to us which has been perpetrated on the public, we can take a license away, and we have done so in two instances.

EXTENT OF COMMISSION MONITORING

Mr. OSTERTAG. Do you monitor the programs?

Mr. HENRY. Not to a meaningful degree. We have to rely on complaints from the industry or from the public. We monitor 75 percent of our broadcast licenses during the 3-year license period for 1 hour in the course of our 3-year inspection of that station, or triennial inspection of that station. We do not have the money or the manpower to monitor them to a meaningful degree.

When you leave the areas of fraud, deception, and obscenity, we get complaints about "disgusting" programs, programs in bad taste, programs that interrupt the dinner hour with deodorant commercials, undue violence that comes on the air at a time when children are watching. If the specific complaint is serious enough we bring it to the at-

tention of the licensee and ask what he will do about it. If it is a generalized complaint we note it and if we detect trends we try to deal with them on the written investigations of the networks, because they are the source of much of the programs.

We are very much concerned with everything that goes over the air, but we have limitations on our power, and rightly so, of course. We have continually and very effectively, between our Commission and the Trade Commission, controlled these abuses.

CENSORING RESPONSIBILITIES OF LICENSEE

Mr. OSTERTAG. The licensee is merely an operator. He does not create the commercials. That is something that is put on the air by the sponsor of the program.

Mr. HENRY. I would say no to that.

Mr. OSTERTAG. Clear it up, then.

Mr. HENRY. As a practical matter entertainment programs——

Mr. OSTERTAG. I am talking about the commercials.

Mr. HENRY. Commercials only? All right. Madison Avenue, we will say, originates much of it.

Mr. OSTERTAG. I know that.

Mr. HENRY. Much is originated by local advertising agencies for local advertising. But the broadcaster has a very clear responsibility to be thoroughly aware of that content and to keep off the air what he feels is not proper.

Mr. OSTERTAG. Is he responsible for censoring it before hand?

Mr. HENRY. Yes, indeed.

Mr. OSTERTAG. In other words, he is supposed to know exactly what will be carried?

Mr. HENRY. He is indeed.

Mr. OSTERTAG. Now, he has a station and a program originates through a central network and he is only a receiver and an outlet for it. How can he be held responsible for what originates with a network and is a nationwide program?

Mr. HENRY. Because he can refuse to carry the network programs he thinks should not be carried.

Mr. OSTERTAG. Does he have to police the programs originating with a network?

Mr. COX. He is entitled to rely on the network's established procedures and to assume normally there would be no problem. Therefore, if a commercial came through he thought was offensive or false and misleading, he would have no problem if he carried it the first time, because he had no advance notice. But if he continues to carry it, he would have a problem.

The Federal Trade Commission sends out a pamphlet showing decrees that have been entered, and so forth, so that they can find out when advertisers have been found guilty of unfair practices or have been accused of it, and a particular broadcaster who carries the dubious kind of advertisements, we would be concerned about.

We are also concerned about the broadcaster who advertises its own popularity and so on.

Mr. HENRY. As a practical matter they are associated with the network and they have a great deal of influence, and if a particular series

is unduly violent or in bad taste, after one or two episodes the licensee could refuse to carry it.

Mr. OSTERTAG. I was talking about where he was only an outlet for a commercial that originated with a network. Can you hold him responsible in that instance?

Mr. HENRY. When you say "hold him responsible," it is only the rare instance where the exercise of that responsibility is called into question because of this prohibition against our censoring programs. It is only the flagrant type of offense or the continuous carrying of some kind of offensive program that creates difficulties.

QUALITY OF TV PROGRAMS

Mr. OSTERTAG. Aside from the issue of your authority to exercise more jurisdiction over the time of commercials, I think the public, generally speaking, have been somewhat disappointed and there is a great concern with the way television has gone backward rather than forward in the general nature, class, and types of programs that are being advanced to the public today. In other words, instead of going into a higher grade and being of greater benefit to the public, they are getting worse. Do you agree with that?

Mr. HENRY. This is a matter of opinion. My personal opinion is that it is getting better. I think there are more programs devoted to news, for example, more hours devoted to news than heretofore. I think there are more hours devoted to public affairs than heretofore. I think there are more locally originated programs than heretofore. I think there is very much to be desired. I think there is much room for substantial improvement, but I do believe that television is going forward in the sense that you are talking about rather than backward.

Mr. OSTERTAG. That is all I have at the moment.

Mr. JONAS. Mr. Chairman, since it is just 15 minutes before the lunch hour, would you mind if I raised another question before going into the justifications?

Mr. BOLAND. No; that will be fine.

FAIRNESS DOCTRINE

Mr. JONAS. I am getting complaints about your so-called fairness doctrine.

Mr. HENRY. We have had a good deal of correspondence about it. As a result of some of the correspondence we had about it, some complaints and some instances that were brought to our attention, we issued a bulletin last July to bring to the attention of our licensees some of the areas concerning which we thought they should be reminded concerning the fairness doctrine. That resulted in some feeling on the part of some broadcasters that we had changed our policy and imposed new burdens on them. We have tried to make clear since then that we have not imposed new burdens on them; that their responsibilities are the same as they have been since 1949 when the fairness doctrine was adopted, and that their methods of operation should continue to be the same because their responsibilities are the same. We pointed out particular instances in which we thought they may have become lax. For example, we had a complaint that a broadcaster had refused to carry an unsponsored program dealing with one

side of a controversial issue on the sole ground that it was unsponsored and the program that had presented the other side of the controversial issue had been sponsored. We ruled that all other things aside, a broadcaster could not use this argument to prevent a contrasting point of view getting on the air.

METHODS OF PRESENTING CONTRASTING POINTS OF VIEW

Mr. JONAS. May I interrupt you there? How would he do that if he had a sponsored program on one side, paid for; do you mean he would be obligated to provide free time for the other side?

Mr. HENRY. Not necessarily. There would be a thousand and one ways for him to comply with the fairness doctrine without putting on another specific free program. Take, for example, the test ban treaty issue, which gave rise to this question. Let us say a station puts on 15 minutes of a program urging the Senate not to approve the test ban treaty. That does not mean, in and of itself, that the broadcaster has to put on 15 free minutes urging the contrary. But the broadcaster's overall responsibility is to present contrasting points of view. He could do so, perhaps, through newscasts or local discussion programs that were part of his regular schedule.

Mr. JONAS. You mean he would have to organize that himself?

Mr. HENRY. It might have been dealt with by the network.

Mr. JONAS. But suppose it is not. Are you not requiring him, if John Smith's associates pay for a program on one side of a controversial issue, would not this doctrine require, if no one volunteers to sponsor the other side, the broadcaster to organize and present the other side?

Mr. HENRY. Not necessarily. He could deal with it editorially on his own.

Mr. JONAS. Suppose he does not want to do that?

Mr. HENRY. He does not have to put on the original program.

Mr. JONAS. I think, personally, that is carrying it beyond the realm of reasonableness. If somebody in the community wants to hear the other side, why do they not sponsor it? Why is it incumbent on the broadcaster to organize a program on the other side?

Mr. HENRY. I might add the Commission was unanimous in this feeling and each Commissioner has his own ideas about this, but I think we are generally agreed that the fairness doctrine as such is a good policy. It is endorsed by the broadcasters, by their associations, and by the FCC. It gives the original choice to the broadcaster as to whether to discuss or not to discuss any issue of public importance. The doctrine says if he chooses to discuss an issue of public importance he has a duty to present contrasting points of view on that issue. As I said before, as a practical matter there are a thousand and one ways to comply with that doctrine. Each broadcaster has a lot of imagination and he can deal with the issue in any of a number of ways. If we were to say that if a controversial issue comes along and is sponsored and the broadcaster makes no effort to deal with it in any way, and is not obligated to do so, we would be saying, in effect, he could use his federally granted license to discuss on the air only one side of those issues that he himself chose, and the public would be denied what we think is a paramount right to be informed on both sides of the issue.

Mr. OSTERTAG. You are saying if he sponsors the original program?
Mr. HENRY. No; some advertiser or some foundation.

OBLIGATION OF BROADCASTER

Mr. THOMAS. Could I interrupt? Do you not have a parallel in the old tort law that this doctrine of fairness comes from? It seems like you have that old principle of tort law that if a man has an agency or instrumentality and through that he sets something in motion and damage flows from it, he is responsible. Is not the fairness doctrine a carryover from that old tort law? In other words, he does not have to give X, who wants to start this ruckus, an opportunity to do so, but if he does permit him to start it then he has to use some extra degree of care, maybe, to see that the other side of the question is brought to the public. Is that not the sum and substance of it?

Mr. LOEVINGER. I think that is precisely right.

Mr. HENRY. I think that is good analogy. If we were to hold otherwise we would be in effect saying that the public has no right to hear various sides of a question of importance.

Mr. THOMAS. You are saying he has some duty and some responsibility and maybe he will incur some liability if he does not see that John Q. Public gets the other side of it. I think your decision is eminently correct.

Mr. LOEVINGER. As an example, suppose some rich constituent of yours is persuaded you are a very poor representative of the people and he takes an hour on the air, and he makes a violent attack on you. You do not have the money to pay for time on the air. Do you not think you are entitled to an opportunity to respond and that the public is entitled to hear from you?

ANALOGY TO NEWSPAPERS

Mr. JONAS. If I requested such opportunity, I think it should be provided. But suppose he takes a full-page ad in the newspaper to denounce me; who will provide the money to reply?

Mr. LOEVINGER. There you can go and run off mimeographed sheets if you want to, and even if you cannot hire anybody, you and your family can go out on the street and pass them around. There is a greater accessibility to communication by printed means than there is by radio broadcasting. There is no way you can get on the air and answer him except by broadcasting.

FULFILLMENT OF BROADCASTER RESPONSIBILITY

Mr. JONAS. If somebody pays John Smith to denounce me on television or radio and I cannot get anybody to pay for 1 hour to defend me, your rule would require the station to give me 1 free hour?

Mr. HENRY. Not necessarily, and not necessarily the person attacked. Again there are many, many ways to satisfy this doctrine.

Mr. JONAS. You have not named but one. What are some of the other ways?

Mr. HENRY. Other than broadcasting a free program of exactly the same length, they could go back over the past year and if they had covered your views on the same issue you had been attacked on in news

broadcasts or in your regular reports to the people, this might well take care of it, for example.

Mr. JONAS. Off the record.

(Discussion off the record.)

EQUAL TIME IN POLITICAL BROADCASTS

Mr. THOMAS. I believe in the fairness doctrine, but Mr. Jonas has raised a question of a burden on somebody where it is not a matter of an exact equity, because you are putting the burden on him or somebody else, and I think it may be a little extreme if carried to the ultimate up and down the line, particularly when you get into elections where you have paid advertising.

Mr. COX. A different doctrine applies there. In the political area if one side pays, the other side has to pay.

Mr. OSTERTAG. That gets in the equal time question?

Mr. LOEVINGER. Yes. That is statutory.

Mr. HENRY. We think the fairness doctrine is fair and equitable. You have to make a judgment of whether you will let, for example, the people who can pay for time be unanswerable or not.

STATEMENT ON FAIRNESS DOCTRINE

Mr. BOLAND. Insert in the record at this point a complete statement on the fairness doctrine.

(The information supplied follows:)

BROADCAST LICENSEES ADVISED CONCERNING STATIONS' RESPONSIBILITIES UNDER THE FAIRNESS DOCTRINE AS TO CONTROVERSIAL ISSUE PROGRAMING

Several recent incidents suggest the desirability of calling the attention of broadcast licensees to the necessity for observance of the fairness doctrine stated by the Commission in its opinion of June 1, 1949, in docket No. 8516. The Commission adheres to the views expressed in that opinion and continues to apply that policy; namely, that the licensee has an affirmative obligation to afford reasonable opportunity for the presentation of contrasting viewpoints on any controversial issue which he chooses to cover.

The Commission has undertaken a study to consider what actions, perhaps in the form of a primer or rules, might be appropriate better to define certain of the licensee's responsibilities in this area. Without undertaking at the present time to specify all, or the most important, applications of the policy, it is appropriate to call attention to the Commission's view of its application in three currently important situations:

(*a*) When a controversial program involves a personal attack upon an individual or organization, the licensee must transmit the text of the broadcast to the person or group attacked, wherever located, either prior to or at the time of the broadcast, with a specific offer of his station's facilities for an adequate response (*Clayton W. Mapoles*, 23 Pike & Fischer, R.R. 586, 591; *Billings Broadcasting Company*, 23 Pike & Fischer, R.R. 951, 953).

(*b*) When a licensee permits the use of his facilities by a commentator or any person other than a candidate to take a partisan position on the issues involved in a contest for political office or to attack one candidate or support another by direct or indirect identification, he must immediately send a transcript of the pertinent continuity in each such program to each candidate concerned and offer a comparable opportunity for an appropriate spokesman to answer the broadcast (*Times-Mirror Broadcasting Co.*, 24 Pike & Fischer, R.R. 404, 405).

(*c*) When a licensee permits the use of his facilities for the presentation of views regarding an issue of current importance such as racial segregation, integration, or discrimination, or any other issue of public importance, he must offer spokesmen for other responsible groups within the community similar

opportunities for the expression of the contrasting viewpoints of their respective groups. In particular, the views of the leaders of the Negro and other community groups as to the issue of racial segregation, integration, or discrimination, and of the leaders of appropriate groups in the community as to other issues of public importance, must obviously be considered and reflected, in order to insure that fairness is achieved with respect to programing dealing with such controversial issues (*Editorializing Report*, 1 (pt. 3) Pike & Fischer, R.R. 201, 204–206; cf. *WBNX Bctg. Co., Inc.*, 4 Pike & Fischer, R.R. 242, 248).

In determining compliance with the fairness doctrine the Commission looks to substance rather than to label or form. It is immaterial whether a particular program or viewpoint is presented under the label of Americanism, anticommunism or States rights, or whether it is a paid announcement, official speech, editorial, or religious broadcast. Regardless of label or form, if one viewpoint of a controversial issue of public importance is presented, the licensee is obligated to make a reasonable effort to present the other opposing viewpoint or viewpoints.

The Commission does not seek to prevent the expression of any viewpoint by any licensee on any issue. It does seek to prevent the suppression of other contrasting viewpoints by any licensee on any issue when licensed broadcast facilities have been used for the presentation of one view of the issue. This is required by the public interest standard of the law.

Adopted: July 25, 1963.

Mr. THOMAS. Gentlemen, let us get some lunch and be back here at 1 o'clock.

AFTERNOON SESSION

Mr. BOLAND. The committee will come to order, please.

EQUAL TIME IN POLITICAL BROADCASTS

Mr. WYMAN. Mr. Chairman, I want to be educated just a little bit about this equal-time business.

Mr. HENRY. We will try.

Mr. WYMAN. Under the present rules and regulations and general statutory law, is a person who obviously is not a bona fide candidate for office but is running to get his name in the paper or as a straw, entitled to the same amount of time as anybody else?

Mr. HENRY. I think the answer is that if he is lawfully qualified under the laws of the jurisdiction in which he is running, then section 315 applies to him.

Mr. WYMAN. What is the obligation under section 315 upon a television station? If an announced candidate makes a 15-minute broadcast, not paid, can anybody else who is an announced candidate demand that the station should give him an equal amount of time for no cost?

Mr. HENRY. Basically, yes. The statute reads if anyone who is legally qualified is permitted to use the services of a broadcasting station, then that station shall afford equal opportunities to all other such candidates. Equal opportunities more or less means what it says. It means comparable time, time of day, an equal amount of time, and under roughly the same circumstances under which it was offered to the first candidate.

EXEMPTIONS TO EQUAL-TIME PROVISIONS

Mr. JONAS. Would it cover this case? If a station covers the laying of a cornerstone at a post office and shows the Congressman run-

ning for reelection making a dedicatory speech, or something of that sort, would the station have to give equal time to his opponent?

Mr. HENRY. No. There are four exemptions, bona fide newscasts, bona fide news interviews, bona fide news documentary, and on-the-spot coverage of bona fide news events. If a candidate appears on any of those kinds of programs, then the equal opportunities provision is not called into play.

Mr. WYMAN. Is this the reason so many of these political candidates do not become political candidates until the last minute, in the sense of announcing?

Mr. HENRY. I do not know what enters into their judgment on that.

Mr. BARTLEY. It could be.

Mr. HENRY. That may be part of it.

Mr. WYMAN. Even though a person is an incumbent, the fact of his making what might be construed to be an obviously politically appealing talk, disguised as a report to his people or one thing and another, if he is not an announced candidate, does not invoke the provisions of this section of the statute. Is that right?

Mr. HENRY. I do not think it invokes it until he is a lawfully qualified candidate, whatever that may be. If he had not filed his petition with the appropriate authority, then I think technically he is not covered by this section.

We have another part of our policy which we discussed earlier this morning, which is referred to in section 315, which says that nothing in the foregoing shall be construed as relieving broadcasters from the obligations imposed upon them under this chapter to operate in the public interest and to afford reasonable opportunity for the discussion of conflicting views on issues of public importance.

So, if an incumbent who was not a candidate got on the air and made a speech involving controversial issues of public importance, the station would have some responsibility to see that the other sides of those issues were aired.

That might not require them to put on a candidate with the same amount of time, necessarily, but they would still have to see that the public got the other side of the story.

Mr. WYMAN. If somebody takes, let us say, 15 minutes of time and pays for it, whether he is a candidate or not, this does not invoke any equal-time benefit, does it?

Mr. HENRY. We also discussed that this morning. It does not involve the equal-time requirements of section 315. It does involve our fairness doctrine, which says if you discuss a controversial issue of public importance, then you must make reasonable efforts to see that the contrasting points of view are presented. The question of whether it was paid for or not does not in and of itself control.

Mr. WYMAN. Suppose Johnny Jones buys a TV station and he is a complete devotee of one of the two major political parties and he says, "Except as to absolute minimum requirements, I am not going to give any time on this station, unless I have to, to anybody else except candidates and people who express a certain point of view." I know he is in trouble, but let us assume he does not say this specifically, and this is his unwritten policy. So, he has people who express this point of view on his station repeatedly, yet he flatly declines to

make available expense-free, costless time to the contrary point of view. What can you do about it?

Mr. HENRY. He would run aground of the rocky shoals of the fairness doctrine. If that came to our attention and somebody specifically requested that we deal with it, we would question him on it.

ACTION OF COMMISSION IN FAIRNESS DOCTRINE CASES

Mr. WYMAN. Then what would happen?

Mr. HENRY. It would depend on whether he could justify it. If he justified it basically in the terms that you have just expressed it, we would say he was not complying with our fairness doctrine and that this matter would be considered at the time his license came up for renewal.

Mr. WYMAN. For renewal but not for suspension.

Mr. HENRY. Not unless he just persisted in view of our admonishing him and it became such a flagrant violation of our policy that we should call it into question immediately.

USE OF CEASE-AND-DESIST ORDERS AND SHOW-CAUSE ORDERS

Mr. WYMAN. Have you, in your General Counsel's office, a procedure which might be analogous to cease-and-desist orders?

Mr. HENRY. Yes.

Mr. WYMAN. Suppose somebody does not cease and desist, would this invoke contempt procedings?

Mr. HENRY. Yes; it could invoke contempt proceedings ultimately, or it could result in our issuing a show-cause order as to why his license should not be revoked.

PERIOD OF TV LICENSE

Mr. WYMAN. How long a period does a fellow who has a TV station get his license for?

Mr. HENRY. Three years.

Mr. WYMAN. So, if the ownership should change to a straw, but you could not prove it was a straw, then unless it was a very aggravated situation, the facilities of a particular TV station under existing regulations and existing statutory law could be rather pointedly oriented before that 3-year period expired?

Mr. HENRY. Theoretically, it could. I think as a practical matter, nobody with a valuable franchise of this kind would just fly in the face of a Commission query and an indication from the Commission that he was, in fact, violating our policy.

Again, if he did choose to go this route, then the question would be whether we let him go it for the remaining time of his license. As I say, if it was serious enough, then I would assume we would consider issuing a show-cause order immediately.

EDITORIALIZING ON TV

Mr. JONAS. There is a growing trend toward editorializing in the television industry; is there not?

Mr. HENRY. I believe there is; yes.

Mr. JONAS. Is this an exception to this rule?

Mr. HENRY. No.

Mr. JONAS. The editor or the speaker for the station always says the views expressed are his own. Who is the judge of whether he is discussing a controversial issue in a manner that would require him to go out and solicit somebody to come on and rebut his editorial?

Mr. HENRY. Basically, the broadcaster makes this initial decision. If that is called into question, then we review the decision.

Mr. JONAS. Then you would have the right to determine whether that was taking sides in a controversial issue?

Mr. HENRY. We make the ultimate decision as to whether the station owner has discussed or broadcast or put forth only one side of a given controversial issue.

Mr. JONAS. That gives you censorship rights; does it not?

Mr. HENRY. No; because, again, it gets back to the broadcaster's choice originally to discuss or broadcast the matter dealing with this controversial issue. This is his choice to begin with. Once he makes that decision, then he has to live up to our fairness doctrine, but he knows that in advance.

Mr. JONAS. What about the commentators who are on the channels?

Mr. HENRY. The same thing applies.

Mr. JONAS. I do not know who is to be the one to decide. I have a view on that. Does the Commission contend it has the final authority?

Mr. HENRY. Yes; we have the final authority, but we have made it clear through any number of pronouncements and any number of specific rulings that the broadcaster's judgment in this area is extremely broad, and he has a great deal of discretion.

Mr. JONAS. You mean he would not carry the burden of proof? Somebody would have the burden to prove that he had violated the doctrine?

Mr. HENRY. I think that is a good analogy; yes. In other words, the area of his discretion and judgment is extremely broad, and we would make a ruling that his judgment was in error only in extreme instances.

Mr. JONAS. Have you ever denied the renewal of a license on this ground?

Mr. HENRY. No; not that I know of.

Mr. THOMAS. They did once, on one station. I think we failed to renew one, on all grounds. What is our record? Is it one or several?

Mr. HENRY. We have had several revocations recently, but not on this ground.

Mr. THOMAS. Years ago, I think they had one.

BROADCASTER'S RESPONSIBILITY IN FAIRNESS DOCTRINE CASES

Mr. HENRY. It is important to remember this: If we find there has been a violation of the fairness doctrine and that the broadcaster has in effect been one sided on a given issue, he usually has ample opportunity to correct this situation in future broadcasts, and it is entirely up to him as to how he will go about airing the other view. He can do it through carrying network shows that he had not been

carrying, or he can put on his own broadcast with his own personnel. He can hire talent. He can have a discussion program. He can call upon citizens in the community simply to talk. There is a limitless number of ways he can satisfy the doctrine.

Mr. JONAS. I certainly recognize the importance and even necessity of fair play and equal opportunity to present all sides. Where I question your doctrine is the requirement that responsibility should be placed on the station to go out and manufacture a program if no one requests or presents one. If there are people who do not like the point of view expressed by the station, I think the fairness doctrine—this is my idea of a fairness doctrine—would be met if those people requested an opportunity to present the other side, and I think they should have that opportunity.

Mr. HENRY. We have no rule and it is not part of the fairness doctrine to say that the broadcaster has to go out and manufacture a program. Basically, he has to take affirmative steps to let people know what is going out over his airways, and to make sure that they know that they do in fact have an opportunity to get on the air. That, I think, is probably the most important thing. As long as he satisfies that requirement, if they choose not to answer one or another program, then he has fully met the fairness doctrine.

Mr. JONAS. That is all, Mr. Boland.

SUMMARY OF BUDGET FOR 1965

Mr. BOLAND. We will turn to the justifications and put pages 1, 2, 3, and 4 in the record.

(The pages follow:)

SUMMARY OF JUSTIFICATIONS FOR 1965 BUDGET ESTIMATE

The Federal Communications Commission submits herewith its budget estimate in the amount of $16,610,000 for fiscal year 1965.

In developing our budgetary requirements we have made every effort to reflect the wishes of the President to hold budgetary requirements to absolute minimums. We have applied a most stringent policy in the fact of mounting workloads in many areas of the Commission's work. In spite of our efforts to avoid additional expenditures our program for 1965 calls for some increases in staff.

The following table provides a breakdown of the staff and dollar amounts requested for 1965 compared with actual figures for 1963 and estimates for 1964:

	1963 Actual	1964 Estimate	1965 Estimate	Increase
Average employment	1381.6	1473.4	1532.7	59.3
Personnel compensation	$11,336,534	$12,780,000	$13,700,000	$920,000
Personnel benefits	843,407	938,000	990,000	52,000
Other obligations	2,766,969	1,882,000	1,920,000	38,000
Total	14,946,910	15,600,000	16,610,000	1,010,000

In keeping with the wishes of the administration, we are, subject to approval of the courts, instituting for the first time a schedule of fees for the filing of numerous types of applications. It is hoped that the Federal Communications Commission will deposit $3,800,000 into the Treasury annually through this program.

We propose to develop further our manpower utilization program to uncover areas where more efficient utilization of our staff can be made. It is with the hope that some economies can be realized through this program that our estimates have been held to the levels recommended.

It is our aim, by the end of fiscal 1965, to reduce slightly many of the application processing backlogs that have been plaguing the Commission for years. We are relying on four factors to accomplish this even though our total application workload will increase in 1964 and 1965. The four factors we are relying on to help us are: (1) the installation of the computer, (2) revisions in rules that have been made and will continue to be made in 1964 and 1965, (3) improved manpower utilization and (4) some increases in staff for areas of processing work which are not compatible with computer operation.

The schedule under which we are operating calls for the computer to become operational in February 1964. Initially it will take over the large clerical operation of processing amateur and citizens applications in the safety and special radio services and engineering calculations and stock ownership records in the broadcast services. Other safety services (aviation, marine, etc.) will be converted to machine operation at intervals throughout the balance of fiscal 1964 and 1965. Complete and detailed licensee records will be maintained on the computer as each service is converted.

In the broadcast area we plan to continue our analysis and study of applications with respect to multiple owners, concentration of control factors, trade practices which may result in unfair competition, time brokerage contracts, excessive commercials, and programing; review the AM rules; and continue at approximately the same level our enforcement program in the complaints and compliance area.

The estimates in this budget propose the continuance of our program to gradually bring our staff up to the level recommended in the management report of Booz, Allen & Hamilton. It was pointed out in our budget submission of last year that 3-year programs were being undertaken in several areas to bring our staff up to the desired level. Our program for expansion has now been revised to provide smaller increases over a longer period.

The second phase of one of these programs is proposed for our Field Engineering Bureau where we propose to increase enforcement activities through additional inspections and interference investigations. Also, by making fuller use of monitoring facilities through the addition of a few employees to man monitoring stations we will provide a very small increase in monitoring activities.

This budget also provides the second phase of the stepped-up program in common carrier activities. This request is consistent with the recommendation of Booz, Allen & Hamilton that our staff be strengthened to permit the Commission to more adequately support a continuing program of common carrier regulation with particular emphasis on rate regulation work.

The distribution of manpower and the total cost of each activity including personnel compensation, benefits, and other obligations for 1964 and 1965 is as follows:

	1964		1965		Increase	
	Average employees	Total cost	Average employees	Total cost	Average employees	Total cost
I. Applied technical research and frequency allocation	91.4	$1,091,323	94.4	$1,149,489	3.0	$58,526
II. Broadcast	340.4	3,567,720	340.4	3,771,971	----------	204,251
III. Safety and special	160.5	1,563,107	154.5	1,537,430	−6.0	−25,677
IV. Field engineering	409.5	4,447,454	440.5	4,778,716	31.0	331,262
V. Common carrier	171.8	1,909,198	194.8	2,202,419	23.0	293,221
VI. Executive, staff, and service	299.8	3,021,198	308.1	3,169,615	8.3	148,417
Total	1,473.4	15,600,000	1,532.7	16,610,000	59.3	1,010,000

The following table shows the increases requested for personnel compensation for the various organization units of the Commission and the personnel benefits and other obligations requirements of the Commission as a whole:

	1964 estimate		1965 estimate		Increase	
	Average employees	Amount	Average employees	Amount	Average employees	Amount
Office of Commissioners	47.7	$575,000	48.0	$593,000	0.3	$18,000
Office of Executive Director	180.9	1,195,000	185.9	1,245,000	5.0	50,000
Review Board	25.8	275,000	25.8	293,000	.....	18,000
Office of Opinions and Review	20.0	207,000	20.0	220,000	.....	13,000
Office of Hearing Examiners	36.0	420,000	34.0	405,000	−2.0	−15,000
Office of Reports and Information	5.0	46,300	5.0	48,000	.....	1,700
Office of Secretary	37.2	235,700	37.2	236,000	.....	300
Office of Chief Engineer	91.4	913,000	94.4	985,000	3.0	72,000
Office of General Counsel	44.7	468,000	47.7	515,000	3.0	47,000
Field Engineering Bureau	409.5	3,279,000	440.5	3,589,000	31.0	310,000
Common Carrier Bureau	164.9	1,615,000	187.9	1,875,000	23.0	260,000
Safety and Special Radio Services Bureau	157.4	1,297,000	151.4	1,259,000	−6.0	−38,000
Broadcast Bureau	252.9	2,254,000	254.9	2,437,000	2.0	183,000
Total personnel compensation	1,473.4	12,780,000	1,532.7	13,700,000	59.3	920,000

	1964 estimate	1965 estimate	Increase (+) or decrease (−)
Total personnel benefits	$938,000	$990,000	$52,000
Other obligations:			
Travel and transportation of persons	245,000	245,000	.....
Transportation of things	50,000	50,000	.....
Rent, communications, and utilities	440,000	460,000	20,000
Printing and reproduction	145,000	145,000	.....
Other services	256,000	299,000	43,000
Supplies and materials	210,000	210,000	.....
Equipment	456,000	441,000	−15,000
Land and structures	80,000	70,000	−10,000
Total, other obligations	1,882,000	1,920,000	38,000
Grand total	15,600,000	16,610,000	1,010,000

COST OF PAY INCREASE AND PERIODIC STEP INCREASES

Mr. BOLAND. This page shows that you are asking $16,610,000, an increase of $1,010,000 over last year. In 1964 you have $15,600,000. What percent of the $1,010,000 is attributable to both the pay increases and the periodic increases you will have?

Mr. HENRY. We put that in the record. As I decipher it, and Mr. Plummer can correct me—it is $270,000——

Mr. PLUMMER. The periodic step increases, within-grade increases that will become due in 1965 will cost $115,000.

Mr. BOLAND. Is it $270,000 plus $115,000 plus $110,000?

Mr. PLUMMER. Yes, sir.

Mr. JONAS. $495,000.

Mr. PLUMMER. That is right.

Mr. HENRY. That seems like a lot to me.

Mr. BOLAND. $495,000 of the $1,010,000 is attributable just to pay increases?

Mr. HENRY. That is right.

ON-BOARD EMPLOYMENT

Mr. BOLAND. How many people had you aboard as of January 1?
Mr. SOLAN. 1,463.
Mr. BOLAND. What were you allowed?
Mr. SOLAN. 1,508.

STAFF INCREASE REQUESTED

Mr. BOLAND. You are asking in 1965 for 59?
Mr. SOLAN. 59.3.
Mr. BOLAND. You had only 1,463 aboard as of January 1?
Mr. SOLAN. That is right. We have 17 commitments. Actually, we are recruiting for 28 vacancies right now to bring us up to that 1,508.
Mr. HENRY. But the 59 increase is over the 1,473, not over the other.
Mr. BOLAND. Did you say 1,463 or 1,473?
Mr. HENRY. The table on page 3 shows 1,473 as the average 1964 employment.
Mr. JONAS. That is average. That is not yearend.
Mr. THOMAS. We will have to straighten out the difference between man-years and jobs. If you have man-years, you will have to add 5 or 6 percent to it to get jobs.
Mr. BOLAND. How about the actual bodies, getting away from the man-years? What is the total employment, the actual bodies?
Mr. SOLAN. We expect to have 1,508.
Mr. BOLAND. As of?
Mr. SOLAN. As of June 30.

RELATIONSHIP OF POSITIONS TO AVERAGE EMPLOYMENT

Mr. THOMAS. But you appropriated for 1,571 for fiscal 1963.
Mr. SOLAN. There would be positions which would be filled at one time or another during the year, but we would never have more than 1,508 at any one single time. Let me illustrate what I mean. If we took 25 positions of people who work on, say, safety and special applications, and we made them card-punch operators or something like that under the computer program, they are 25 different positions, even though half a year they are one, and half a year they are something else. The first half of the year they are application processing clerks, and the last half of the year they are card-punch operators. They are different positions.
Under the provsions of the budget circular, we have to report any position that is filled any time during the year. You always get more positions in that manner than you can have filled at any given time.

AMOUNT COLLECTED FROM FEES

Mr. JONAS. Before you leave the summary, you propose in your user charges to recoup $3,800,000.
Mr. HENRY. Approximately; yes.

Mr. JONAS. Would it be well right here to have a list of those charges?

Mr. BOLAND. The fees?

Will you submit for the record a schedule of fees?

Mr. SOLAN. I might point out, none of those fees go to the Commission.

Mr. JONAS. They go to the Treasury.

Mr. HENRY. Yes. We will submit a schedule of fees for the record.

(The information supplied follows:)

The schedule of fees for filing applications for the different categories of service follows:

Broadcast services

	AM	FM	TV	Translator	Auxiliary
Application for construction permit for new station or major change	$50	$50	$100	$30	$30
Application for renewal or assignment of license or transfer of control, exclusive of FCC form 316 applications (where more than 1 broadcast station license is involved, the application must be accompanied by the total amount of the fees prescribed for each license so involved)	50	50	100	30	30
Application filed on FCC form 316 (where more than 1 broadcast station license is involved, the application must be accompanied by the total amount of the fees prescribed for each license so involved)	30	30	30	(1)	(1)
Application for change of call letters for broadcast station	20	20	20	20	20
All other applications in the broadcast services (excluding television translator applications not specified above)	30	30	30	30	30

[1] No fee.

Fees are not required in the case of applications filed by tax-exempt organizations for the operation of stations providing noncommercial educational broadcast services, whether or not such stations operate on frequencies allocated for noncommercial educational use.

Common carrier services

Applications for initial construction permit. (No additional fee will be charged for application for license to cover. An application for authority to change location of a fixed station will be treated as an application for initial construction permit):

Domestic public land mobile radio service:	
Base station (includes associated mobile stations)	$100
Dispatch station, control station, or repeater station	25
Individual user mobile station	5
Point-to-point microwave radio service	30
Rural radio service:	
Central office station, interoffice station, or rural subscriber station	10
Rural subscriber station at temporary-fixed locations	10
Individual subscriber station	5
Local television transmission service	50
International fixed public radiocommunication services:	
International fixed public station:	
New station	100
Additional transmitter	100
Replacement of transmitter	50
International control station:	
New station	30
Additional transmitter	30
Replacement of transmitter	10
Other common carrier services	10

Common carrier services—Continued

Applications to make modifications or to supplement facilities at existing sites in the point-to-point microwave radio serivce	30
Applications for license for operation of a station at temporary-fixed locations in the point-to-point microwave radio service	30
Applications for modification of construction permit at an existing station location in the local television transmission service	50
Applications for license for operation of an STL, station at temporary fixed locations in the local television transmission service	50
Applications for license for operation of mobile television pickup station in the local television transmission service	50
Application for renewal of license:	
Domestic public land mobile radio service:	
Base station (includes associated mobile stations)	25
Dispatch station, control station, or repeater station	10
Individual user mobile station	5
Point-to-point microwave radio service	5
Local television transmission service	5
Rural radio service, all stations	5
International fixed public radiocommunication services:	
International fixed public station	75
International control station	10
Other common carrier services	5
All other common carrier radio applications	10
Application by communications common carriers for authorization to own stock in the Communications Satellite Corp	10
Sec. 214 applications by telephone companies	50
Sec. 214 applications by telegraph companies	10
Cable landing license applications	100
Sec. 221 applications	50
Interlocking directorate applications	10
All other common carrier nonradio applications	10

Safety and special radio services

Applications in the amateur radio service:	
For initial and renewed licenses	$4
For modification of license	2
Request for special call sign	20
Applications in the citizens radio service:	
For class A station authorization	10
For all other classes of stations in the citizens radio service	8
Applications for radio station authorizations or operational fixed microwave radio stations (no fee required for application for license to cover construction permit)	30
Applications for renewal only for which FCC Form 405A is prescribed	4
All other applications filed in the safety and special radio services	10

Fees are not required in the following instances:

(1) Applications filed in the police, fire, forestry-conservation, highway maintenance, local government, and State Guard radio services.

(2) Applications filed by governmental entities in any of the safety and special radio services.

(3) Applications filed by the following in the special emergency radio service: Hospitals, disaster relief organizations, beach patrols, and school buses, and nonprofit ambulance operators and rescue organizations.

(4) Applications filed in the disaster communications service.

(5) Applications for ship inspections pursuant to the Great Lakes Agreement, the Safety of Life at Sea Convention, and parts II and III, title III, of the Communications Act of 1934, as amended.

(6) Applications for novice class license in the amateur radio service, applications for amateur stations under military auspices, and applications filed in the radio amateur civil emergency service (RACES).

(7) Operational fixed microwave applications filed for closed circuit educational television service.

(8) Applications for Civil Air Patrol stations, aeronautical radionavigation stations, and for aeronautical search and rescue stations.

Commercial radio operators

Applications for commercial operator examinations:	
1st class	$5
2d class	4
3d class	3
Applications for commercial operator licenses (includes renewals, endorsements, duplicates, etc.)	2
Applications for restricted radiotelephone permits	2

Fees are not required for applications in the experimental radio services (other than broadcast).

Mr. BOLAND. It is our understanding the schedule of fees goes into effect March 17, irrespective of what has transpired in the legislative committee.

Mr. HENRY. That is correct.

Mr. JONAS. Do not these fees have to be impounded?

Mr. HENRY. They have to be held in escrow, in effect, until the court decides the matter.

Mr. BOLAND. The tables on 5, 6, 7, and 8 are all-embracive tables and are all covered under their respective activities. This is good information but we will pick up the figures as we go through the budget.

APPLIED TECHNICAL RESEARCH AND FREQUENCY ALLOCATION

We will turn to "Applied technical research and frequency allocation activity."

Here you are asking for an increase of $58,526 over 1964. This is occasioned by salary increases and 3 additional man-years. Your other obligations are reduced by $16,799 for 1965. Put pages 9, 10, and 11 in the record.

(The pages follow:)

APPLIED TECHNICAL RESEARCH AND FREQUENCY ALLOCATIONS ACTIVITY

INTRODUCTION

Directing, planning, and coordinating forward-looking and applied research programs and the allocation of radiofrequencies are carried out under this activity. Many of these programs are of national importance and others are necessary to improve service to the public. Radio propagation, radio measurements, experimental, type approval and acceptance, radiofrequency devices and systems and equipment are important areas of the work.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Personnel compensation	$794,334	$913,000	$985,000	$72,000
Personnel benefits	59,020	68,580	71,905	3,325
Other obligations	67,492	109,743	92,944	−16,799
Total	920,846	1,091,323	1,149,849	58,526

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
1. Technical research and rulemaking	33.9	38.6	40.6	2.0
2. Experimenting, testing, and analysis	16.9	18.4	19.4	1.0
3. Frequency allocation and treaties	32.8	34.4	34.4	
Total	83.6	91.5	94.4	3.0

JUSTIFICATION BY ACTIVITY

Technical research and rulemaking

The Commission is kept advised on new developments in the communications field and expert consulting service is furnished the Commission and numerous other Government agencies by means of this activity which includes research on studies dealing with interfering effects and on uses of satellite communications; preparation of propagation curves based on data collected by the Commission and other organizations; studies of efficiency of various station assignment arrangements; participation in international technical conferences on communications; development of technical standards for new and improved radio systems and devices; type acceptance and certification of equipment for compliance with FCC standards, regulation of nonlicensed radiating devices for interference control, administration of all-channel TV receiver requirements, and licensing experimental stations.

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Research	12.5	16.1	17.1	1.0
Technical evaluations and rulemaking	21.4	22.5	23.5	1.0
Total	33.9	38.6	40.6	2.0

The above increase is needed to adequately perform the research functions as recommended by the BAH report. It is proposed to make a small annual increase in this function to arrive at what can be considered the best balance between FCC research and that done by other agencies and private industry, and to provide assistance in the development of technical standards and in equipment type acceptance and certification.

(*a*) *Research.*—A study has been initiated with regard to the need for more channels for the land "mobile services." The study will embrace a short term as well as a long-term solution of the problem.

Additional analysis of data from the UHF–TV project is going forward and will require considerable effort for at least another year. Several reports are planned on various phases of the project where data supplemental to the main aspects of the project were collected.

The feasibility of a manmade noise study throughout the radio spectrum is being considered at the present time. If it is determined that such a study should be made, further planning will be necessary to determine the best manner of conducting the study and the amount and type of equipment to be used.

Continuing work on studies regarding sharing between various types of satellite communications systems or between satellite systems and ground-based systems is essential. While the studies which have been made so far are sufficient for indicating the nature of the frequency allocations which will be required, further studies are necessary for actual station assignment practices.

Studies are going forward and will be continued into the various methods of conducting field strength measurements. In addition, studies are being conducted into the various methods of predicting field strengths with a view to improving the prediction technique.

Continual review of technical information from all available sources is required to keep the Commission and staff informed of promising developments, and

in order to supply expert consulting services to the Commission and to numerous other Government agencies including NASA, U.S. Coast Guard, Department of Defense, IRAC, FAA, and VOA.

A continuing investigation into computer programs for processing technical data is necessary to supply consulting service on computer technology to the Commission.

A cooperative project with the Electromagnetic Compatibility Analysis Center of the Department of Defense is planned to prevent any overlap in our efforts to reduce electromagnetic interference and to attempt greater compatibility between inputs to our respective computers.

Participation in the work of the International Radio Consultative Committee (CCIR) and other international technical organizations will continue so as to assure as much consistency as possible between their work and that of this agency.

(*b*) *Technical evaluations and rule making.*—This workload is increasing steadily due to advances in technology. New kinds of communications services, new equipment designs, and new nonlicensed apparatus must be evaluated and regulated. The resulting increased workload occurs principally in equipment-type acceptance and certification, and in development of technical standards for new systems and devices. The following table shows the increased equipment-type acceptance workload in recent years:

Fiscal year—	*Number of equipment types receiving type acceptance*
1956	65
1957	168
1958	249
1959	302
1960	249
1961	264
1962	414
1963	480

In addition to the numerical increase in type acceptances, there is a steady increase in complexity of equipment and the resulting work in evaluating equipment types. Type acceptance of equipment for licensing is based on evaluation of representations and test data submitted by the manufacturer.

Mr. BOLAND. Manpower requirements, top of page 10, and Research (reading):

A study has been initiated with regard to the need for more channels for the land "mobile services." The study will embrace a short term as well as a long term solution of the problem.

This explains some of the activities into which the Commission will go in respect to research in 1965. This is already in the record.

Mr. HENRY. Actually, all of our increases in manpower are for research.

EXPERIMENTING, TESTING, AND ANALYSIS

Mr. BOLAND. "Experimenting, Testing, and Analysis." You break this down into the number of employees engaged in this activity.

Put in page 13, and put in some of the studies and projects on page 14, the nine listed.

(The pages follow:)

Experimenting, testing, and analysis

Provides scientific and technical assistance to the Commission in the administration of the Communications Act. Includes making engineering tests of equipment and issuing certificates of type approval for equipment. Develops new measurement techniques and cooperates with professional societies in the establishment of standards and standard measurement techniques. Develops new monitoring and measuring equipment and systems for use by the Field Engineer-

ing Bureau and provides calibration service for the FEB, including calibrations for their Mobile TV monitoring units.

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Average employment	16.9	18.4	19.4	1.0

Type approval work is expected to increase and testing as a basis for enforcement of the recently enacted all-channel receiver legislation is also expected to reach a peak in 1965.

Type approval is the procedure whereby the Commission tests equipment at its Laboratory to determine that the equipment is capable of complying with the applicable technical standards. Type approval is required for certain classes of equipment, the performance of which is essential for safety, which is intended for use by unskilled persons, or which must meet very precise standards.

An increasing number of microwave stoves and ovens have been received during the last year and it appears that this may soon become an important venture, with rather large increases of type approval work in this area. There also appears to be developing an increase in the number and types of ultrasonic cleaners being submitted for type approval. Difficulties in obtaining compliance in type acceptance procedures in the Citizen's Radio Service and with regard to translators in the broadcast service also suggests that type approval procedures will have to replace type acceptance procedures in these areas, resulting in considerable more type approval work.

Calibration work is still lagging both with regard to the Laboratory and FEB equipment. The FEB is sometimes without needed equipment because of delays in calibration. Delays often make it necessary to ship equipment from one office to another to carry on FEB work. This is expensive in terms of both money and manpower. Although it is hoped that this situation can be improved within the next year, experience has shown that increasing time and effort per unit are needed in this area because of the increasing complexities of the equipment involved.

Sampling of type-accepted and type-approved equipment has been performed on a most urgent case basis and considerable noncompliance found.

Assuming that additional personnel are obtained in 1964, it is hoped that some of these problems may be reduced, and that progress may be made in the long-range studies and projects of broad significance, such as:

(1) noise and interference studies leading to interference measurement standards;

(2) transmission system studies, as for example, precision offset for TV stations;

(3) automated monitoring procedures and equipment;

(4) satellite and space communications and monitoring problems. These problems will probably have advanced to the operational stage requiring solution of interference problems by 1965;

(5) TV-sound power reduction;

(6) TV and FM—revision of oscillator radiation measurement methods;

(7) FM-stereo—development of test methods and procedures for enforcement of stereo rules—also requirements for stereo monitors;

(8) Marine—RTCM–CCIR selective calling system tests for marine radiotelephone for international standardization;

(9) automatic monitoring of channel occupancy.

During 1965, the Laboratory will work on projects including:

(1) development of loudness meter for the loud commercial problem;

(2) radiation from computers;

(3) determination of directional distortion on nondirectional FM antennas mounted on AM towers;

(4) study minimum power necessary for communication and methods for obtaining use of minimum power.

FREQUENCY ALLOCATION AND TREATIES

Mr. BOLAND (reading):

"Frequency Allocations and Treaties." This function is directed toward obtaining the most equitable distribution of radiospectrum space to best meet the critical frequency requirements of the various radio services * * *.

Put page 15 in the record.

(The page follows:)

Frequency allocation and treaties

This function is directed toward obtaining the most equitable distribution of radiospectrum space to best meet the critical frequency requirements of the various radio services such as broadcasting, public safety, etc., and promoting the most efficient frequency utilization with minimum harmful interference between assignments and services. In the worldwide shared use of the radio spectrum, close international and national cooperation and coordination are essential. Therefore, this requires frequent international telecommunication conference participation and international meetings. Domestically, continuous close coordination with all U.S. Government users of radio and with those responsible for U.S. telecommunication policy planning is essential to direct the development of our national communication system so as to meet our growing civil and governmental requirements.

Manpower requirements

	1963 actual	1964 estimate	1965 estimate	Increase
(a) Domestic frequency coordination and management	5.0	5.5	5.5	
(b) Major international conference activities	4.0	4.0	4.0	
(c) International interference and frequency coordination	4.0	4.0	4.0	
(d) International notification of frequencies	2.4	2.4	2.4	
(e) International conference information and records	2.0	2.0	2.0	
(f) Other international activities	1.0	1.0	1.0	
(g) Domestic frequency allocations	4.9	6.0	6.0	
(h) Frequency assignment records	7.5	7.5	7.5	
(i) Call signs	2.0	2.0	2.0	
Total	32.8	34.4	34.4	

INTERNATIONAL CONFERENCES

Mr. BOLAND. On page 16 you show "Major international conference activities." What conferences do you intend to have the Commission represented at in 1965?

Mr. LOEVINGER. I can tell him about one.

Mr. HENRY. There is one involving the aeronautical radio services. There is one in June, I believe.

Mr. RENTON. We have a conference in Stockholm. We have the International Telecommunication Union Extraordinary Administrative Radio Conference for Aeronautical. We have the ITU Administrative Radio Conference in Geneva in 1965. We have the ITU Plenipotentiary Conference in Geneva in 1965.

Mr. HENRY. That is the most important one. That is for a general examination of the ITU rules and regulations and agreements.

Mr. BOLAND. How many personnel do you take to that type of Conference?

Mr. HENRY. It depends. I attended one last October in Geneva, at which we had, I think, five Commission personnel. The people from

our Commission, I think, are the most knowledgeable and experienced in this field, and they are usually a great asset to the Conference. I would say at a big one, we would take five to six people.

Broadcast Activity

Mr. Boland. We shall turn to "Broadcast activity," one of your big services.

We shall put page 19 in the record.

(The page follows:)

Broadcast Activity

introduction

Broadcasting is a medium of radio transmission intended for reception by the general public.

Broadcasting includes both aural services (standard, or AM broadcasting, and frequency modulation, or FM broadcasting) and visual services (television and facsimile). Within these categories are contained several related auxiliary services.

The broadcast activity of the Commission in very general terms, consists of the licensing and regulatory functions of the broadcasting and associated auxiliary services.

The major portion of this work is handled by the Broadcast Bureau. In addition, the broadcast activity makes up the major workload of the Office of Hearing Examiners, Review Board, Office of Opinions and Review, and the Docket Division of the Office of the Secretary.

Total financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Personnel compensation	$2,839,033	$3,141,468	$3,339,969	$198,501
Personnel benefits	212,278	237,742	243,646	5,904
Other obligations	163,006	188,510	188,356	−154
Total	3,214,317	3,567,720	3,771,971	204,251

Total manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
(1) Application processing	124.4	126.3	127.3	1.0
(2) Hearings	110.2	118.9	116.9	−2.0
(3) Rules	25.4	24.1	23.8	−0.3
(4) Complaints and compliance	46.7	47.0	48.0	1.0
(5) Research and education	11.3	12 3	12.8	0.5
(6) Network	7.6	7.4	7.2	−0.2
(7) International	4.4	4.4	4.4	0
Total	330.0	340.4	340.4	0

Mr. Boland. The increase here is occasioned again by personnel compensation. The manpower requirements remain the same in 1965 as in 1964.

The table on page 20 is a breakdown of the requirements within the broadcast activity itself—Broadcast Bureau, Hearing Examiners, Review Board, Opinions and Review, Dockets Division.

Page 21 is a summary of the workload for various activities within the Broadcast Division.

APPLICATION PROCESSING

Page 22 is the "Application processing," and shows the manpower requirements broken down into requirements for AM, FM, TV, translators, and standard broadcast.

Put in the table indicating the workload of the AM activity, "Renewal applications, assignment and transfer" on page 23, and the table showing the actual and estimated authorized AM stations for the 10-year period 1955 to 1965, showing 2,840 10 years ago, and in 1965 you expect to have 4,300 AM stations fully authorized. Insert the narrative with respect to the "freeze" of May 10, 1962, "on the acceptance of standard broadcast applications for new stations and major changes in existing stations." (Reading:)

Because of the limited "freeze" on acceptance of new applications, the backlog of applications for new and major changes has been reduced substantially during 1963.

But it is expected to pick up after you lift the "freeze," I presume.

Mr. HENRY. Yes; we will. We will lift that "freeze," we hope, in June of this year.

(The material referred to follows:)

JUSTIFICATION BY ACTIVITY

Application processing

This portion of the broadcast activity budget covers all requirements for staff to process the various applications for construction permits and licenses in the AM, FM, TV, translator, and all other broadcast services.

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
(a) AM	67.2	67.5	67.0	−0.5
(b) FM	14.2	14.4	14.6	.2
(c) TV	34.4	35.8	37.0	1.2
(d) Translators	4.9	5.0	4.9	−.1
(e) All others	3.7	3.8	3.8	0
Total	124.4	126.5	127.3	.8

(a) *Standard broadcast (AM).*—This activity involves the processing of applications for new stations, and modifications and changes in existing facilities. Processing of such applications includes consideration of questions such as multiple ownership, programing, violations of Commission rules and regulations in the operation of broadcast stations and trade practices which may be inconsistent with the duties and responsibilities of a broadcast licensee.

AM application workload

NEW AND MAJOR CHANGES

	1963 actual	1964 estimate	1965 estimate
Pending beginning of year	813	464	110
Received for processing	214	246	221
Designated for hearing	169	180	68
Disposed of without hearing	394	420	193
Pending end of year	464	110	70

AM application workload—Continued

SUPPLEMENTAL AND CONTINUING [1]

Pending beginning of year	633	472	468
Received for processing	2,032	2,600	2,600
Designated for hearing	3	4	4
Disposed of without hearing	2,190	2,600	2,600
Pending end of year	472	468	464

RENEWAL APPLICATIONS

Pending beginning of year	637	611	591
Received for processing	1,379	1,500	1,400
Designated for hearing	8	10	10
Disposed of without hearing	1,397	1,510	1,540
Pending end of year	611	591	441

ASSIGNMENT AND TRANSFER

Pending beginning of year	152	196	220
Received for processing	606	750	675
Designated for hearing	4	5	5
Disposed of without hearing	558	721	725
Pending end of year	196	220	165

[1] These applications include, for example, those for minor modification of permits, approval of transmitter site, extensions of time to construct, and license upon completion of construction, as well as applications for replacement or renewal of equipment, readjustment of antenna systems and minor change in transmitter locations, etc.—in essence, all those applications necessary to permit a station to go on the air following grant of an application for permit to construct, and to maintain a station on the air on a continuing basis.

The following table shows the actual and estimated authorized AM stations for the years 1955 to 1965:

1955	2,840	1961	3,757
1956	3,020	1962	3,886
1957	3,238	1963	3,997
1958	3,353	1964	4,150
1959	3,500	1965	4,300
1960	3,581		

On May 10, 1962, the Commission imposed a limited "freeze" on the acceptance of standard broadcast applications for new stations and major changes in existing stations. This action was the result of a recognition that assignments in the standard broadcast field were, as a matter of allocation, less efficient than desired. It was concluded that it would be necessary to revise many of the AM allocation rules to avoid compounding existing problems. A limited "freeze" was imposed while the matter was under study. A notice of proposed rulemaking was released May 17, 1963, and it is expected that new final rules will be adopted during fiscal year 1964.

Because of the limited "freeze" on acceptance of new applications, the backlog of applications for new and major changes has been reduced substantially during 1963.

It is estimated that in 1965, we will receive 221 applications for new stations and major changes in AM facilities. With adoption of new AM allocation rules and the data-processing program, we hope to be able to complete the necessary studies required and become reasonably current in this area.

The electronic data-processing procedures will facilitate and speed up many of the more tedious and time-consuming operations and will assist in reducing the delays in application processing.

DELAY IN APPLICATION PROCESSING

Mr. BOLAND (reading):

The electronic data-processing procedures will facilitate and speed up many of the more tedious and time-consuming operations and will assist in reducing the delays in application processing.

How long is the usual delay in the AM, FM, and standard activities?

Mr. HENRY. It is hard to say. It depends upon whether they have any uncorrected errors when they come in. We can get them out in as little time as 2 months if they are correct when they come in.

FREQUENCY MODULATION

Mr. BOLAND. Page 24, frequency modulation. This activity involves the processing of the various categories of applications in the FM service.

Put in the workload on frequency modulation application, new and major changes, and supplemental and continuing; and the table on page 25 indicating the 10-year period for FM, 679 stations in 1955, 1,800 in 1965.

(The material referred to follows:)

Frequency modulation (FM).—This activity involves the processing of the various categories of applications in the FM service as is explained on page 22 for the AM service.

FM application workload

NEW AND MAJOR CHANGES

	1963 actual	1964 estimate	1965 estimate
Pending beginning of year	239	276	250
Received for processing	335	550	575
Designated for hearing	0	30	50
Disposed of without hearing	298	546	575
Pending end of year	276	250	200

SUPPLEMENTAL AND CONTINUING [1]

Pending beginning of year	248	145	133
Received for processing	907	1,000	1,050
Designated for hearing	2	2	2
Disposed of without hearing	1,008	1,010	1,050
Pending end of year	145	133	131

RENEWAL APPLICATIONS

Pending beginning of year	178	278	260
Received for processing	616	525	550
Designated for hearing	0	1	1
Disposed of without hearing	516	542	559
Pending end of year	278	260	250

ASSIGNMENT AND TRANSFER

Pending beginning of year	33	62	84
Received for processing	219	225	225
Designated for hearing	3	3	3
Disposed of without hearing	187	200	225
Pending end of year	62	84	81

[1] These applications include, for example, those for minor modification of permits, approval of transmitter site, extensions of time to construct, and license upon completion of construction, as well as applications for replacement or renewal of equipment, readjustment of antenna systems and minor change in transmitter locations, etc., in essence, all those applications necessary to permit a station to go on the air following grant of an application for permit to construct, and to maintain a station on the air on a continuing basis.

The following table shows the actual and estimated authorized FM stations for the years 1955–65:

1955	679	1961	1,291
1956	682	1962	1,400
1957	709	1963	1,445
1958	791	1964	1,600
1959	934	1965	1,800
1960	1,093		

On July 25, 1963, the Commission adopted new rules for the FM broadcast service together with a table of FM assignment. As a result, it is expected that there will be a continuing upward trend in applications for new stations and for major changes in existing stations. Filing of applications by prospective licensees has undoubtedly been held up pending a decision in the FM rulemaking proceeding. With the rulemaking now completed it is expected a high level of applications should be filed in 1964 and 1965. With finalization of the new allocation rules, increased filings year by year is expected to resume.

The selective "spot check" procedure for in-depth processing of FM applications has been covered in the AM portion of this budget.

Since adoption of the new FM rules and allocation table, it is expected that manpower requirements for application processing will not increase proportionately with the expected increase in application receipts. The requested increase of 0.2 average employment for 1965 is requested to maintain a current status in the application processing area.

TV SERVICE

Mr. BOLAND. TV is shown at the bottom of page 25. This activity involves the processing of the various categories of applications in the TV service.

Can you give us a breakdown between the VHF and UHF with respect to the workload on page 26? Is there a breakdown on this?

Mr. HENRY. It depends on how you want it broken down. Of course, the total time devoted to television matters is not reflected in this table. That is just the number of applications. Television goes across all of the areas of broadcast activities, from application processing to rulemaking to hearings, and so on.

Mr. BOLAND. Put in the 10-year table, 1955–65, showing 610 in 1955 and 800 in 1965.

(The material referred to follows:)

This activity involves the processing of the various categories of applications in the TV service.

TV application workload

NEW AND MAJOR CHANGES

	1963 actual	1964 estimate	1965 estimate
Pending beginning of year	103	131	115
Received for processing	209	300	350
Designated for hearing	18	50	50
Disposed of without hearing	163	266	342
Pending end of year	131	115	73

SUPPLEMENTAL AND CONTINUING[1]

Pending beginning of year	325	262	222
Received for processing	250	300	325
Designated for hearing	2	3	3
Disposed of without hearing	311	337	362
Pending end of year	262	222	182

TV application workload—Continued

RENEWAL APPLICATIONS

Pending beginning of year	130	96	70
Received for processing	238	250	250
Designated for hearing	5	6	7
Disposed of without hearing	267	270	275
Pending end of year	96	70	38

ASSIGNMENT AND TRANSFER

Pending beginning of year	18	21	16
Received for processing	95	120	125
Designated for hearing	6	6	6
Disposed of without hearing	86	119	120
Pending end of year	21	16	15

[1] These applications include, for example, those for minor modification of permits, approval of transmitter site, extensions of time to construct, and license upon completion of construction, as well as applications for replacement or renewal of equipment, readjustment of antenna systems and minor change in transmitter locations, etc.—in essence, all those applications necessary to permit a station to go on the air following grant of an application for permit to construct, and to maintain a station on the air on a continuing basis.

The following table shows the actual and estimated authorized television stations for the years 1955–65:

1955	610	1961	717
1956	650	1962	733
1957	700	1963	757
1958	718	1964	780
1959	726	1965	800
1960	717		

NUMBER OF UHF AND VHF STATIONS EXPECTED

Mr. BOLAND. What is the breakdown between UHF and VHF?

Mr. SHERIDAN. I would say probably 600 VHF.

Mr. BOLAND. I thought this morning somebody said there were only 90 UHF stations.

Mr. LEE. On the air, about 90.

Mr. BOLAND. That would be 100 between now and the end of fiscal 1965. You will not even come close to that.

Mr. SHERIDAN. Yes; 100 more.

Mr. HENRY. That would include educational stations, would it not?

Mr. SHERIDAN. Yes.

Mr. FORD. We have 54 applications pending now.

Mr. HENRY. We have some 80-plus educational stations now. They are not all UHF, of course.

TRANSLATOR DESCRIPTIONS AND WORKLOADS

Mr. BOLAND. Page 27 indicates the work on translators, VHF and UHF. Will you describe for the committee what a translator is?

Mr. HENRY. Mr. Sheridan is the expert in this field. The translator is a station which picks up a signal off the air and rebroadcasts it at a different frequency. It is usually low power and usually designed to serve an area which, due to reasons of topography, cannot pick up the signal of the regular broadcast station.

Mr. BOLAND. This extends the signal?

Mr. HENRY. Basically, that is correct. It fills in holes in the predicted contour.

Mr. BOLAND. The table at the bottom of page 27 shows 74 translators in 1957, and 2,100 in 1965.

Hearings, page 30. You have the hearings broken down: Broadcast Bureau, Hearing Examiners, Review Board, Opinions and Review, and Dockets Division.

The next table indicates the manpower requirements for those divisions.

Mr. HENRY. This is a total decrease of two people.

Mr. BOLAND. I do not know whether or not we need the next few pages, which indicate the hearings within the particular services, AM services, FM services, and so on.

Mr. HENRY. I might point out on page 35, toward the bottom, it says that the Commission has not made its final determination on whether it will permit the drop-in of VHF channels. We have made that decision, and the decision has been in the negative.

That will reduce the complexity of hearings that may occur in those areas.

Mr. BOLAND. Page 36, rules, covers the manpower required to handle all phases of rulemaking for the AM, FM, and TV services, and the narrative indicates there is a real need for a comprehensive revision of the rules in all of these services.

COMPLAINTS AND COMPLIANCE

Complaints and compliance, page 38. This is concerned with enforcement functions of the Commission in regard to broadcast stations' programing and other questions regarding compliance with the Communications Act. We went through this in the general statement.

You are asking for an increase of only one. You had 47 in 1964, 48 in 1965.

Put in the narrative on pages 39 and 40 on complaints.

(The pages follow:)

Complaints and compliance (enforcement)

This activity is concerned with the enforcement functions of the Commission. Complaints concerning the conduct of broadcast stations in their practices and programing, together with questions regarding compliance with the Communications Act, Commission rules and policies are analyzed, investigated as required, and proper corrective actions initiated, as appropriate. Most of the activity is centered in the Complaints and Compliance Division of the Broadcast Bureau.

Manpower requirements (average employment)

	Actual, 1963	Estimated, 1964	Estimated, 1965	Increase
AM	23.4	23.4	24.0	0.6
FM	1.8	1.8	1.8	
TV	21.5	21.8	22.2	.4
Total	46.7	47.0	48.0	1.0

The enforcement activities apply equally to television, standard broadcasting, and to FM. The Commission has by its enforcement actions in recent years demonstrated its intention to concern itself primarily with the actual performance of broadcast licensees rather than their promises, and to make sure that they fulfill their obligation to serve the public interest. The newly adopted enforcement procedures of the Commission have required the establishment of

a staff of Washington-based field investigators to investigate allegations of nontechnical violations by licensees as contrasted to the periodic technical inspections performed by the Field Engineering Bureau. The Intensified enforcement program of the Commission is beginning to show results in increased compliance by broadcast licensees.

Although a greater number of complaints are received from the public regarding television than regarding AM or FM broadcasting, thus requiring more correspondence regarding television, investigatory activities, on the other hand, are more largely devoted to AM licensees than either to TV or FM because a much greater number of AM stations are in operation. Additionally, many of the smaller AM stations involve marginal operations in which violations are more likely to occur than in the TV or larger AM stations.

The workload has steadily increased each year since the Complaints and Compliance Division was established in 1960, as the public has become more fully aware of the Commission's determination to regulate broadcasting in the public interest through stricter and more comprehensive enforcement. For example, whereas communications from the public (letters, telegrams, postal cards) averaged 1,000 per month in 1962, they averaged 1,660 per month in 1963. There was an equivalent increase in correspondence with licensees regarding such complaints, and a similar increase in the number of field investigations of cases which required on-the-spot investigation in order to ascertain the facts. The available staff has by no means been able to conduct field investigations of all cases meriting such investigation, nor has it been possible to put into effect the originally proposed program of audits-in-depth of selected stations on a regular and continuing basis for the purpose of providing information used in the processing of renewal applications, as well as to provide the Commission with general information as to the current practices of broadcast licensees.

Nor has the staff been able for the past 2 years to conduct any broad-scale investigations of general practices, as contrasted to investigations of specific complaints. For example, it is believed that, despite the activities of the House Legislative Oversight Committee in exposing the dishonest practices involved in payola; despite the Commission's own extensive investigation of this subject in 1960; and despite the adoption by the Congress of legislation imposing criminal penalties for such offenses, payola still is widespread in broadcasting and in certain fields may even have increased. Therefore, it is believed that a major, nationwide investigation of this and related practices, extending over a period of several months, is highly desirable.

The Commission recognizes that with almost 5,000 broadcasting stations in operation, it never will possess a staff of sufficient size to insure compliance by all licensees with all statutes and regulations. However, it is convinced that the establishment of an investigatory force of sufficient size and ability to enable the Commission to unearth and to punish a substantial number of major violations will in time bring about substantial general improvement in the level of compliance of all licensees.

For many years, the Commission lacked sufficient investigatory staff, with the result that few violations were detected, few sanctions were imposed, and a great many broadcasters became convinced that they would suffer no penalty if they refused to comply with the Communications Act and with the rules and regulations adopted under its authority. The Commission's present enforcement program has been in effect less than 3 years, but broadcasters in general already are giving evidence of their respect for the program. It is believed that continuation of this program on a scale approaching that originally contemplated will eventually bring about substantial compliance by almost all broadcasters. The 1.0 additional average employment requested will permit a more expeditious handling of the increased workload expected.

RESEARCH AND EDUCATION

Mr. BOLAND. Research and education.

CARROLL CASE

What was the Carroll issue, referred to in the second paragraph?

Mr. HENRY. That was a case involving a complaint from a station in a community that if we granted a new application in that community, the economic detriment to the existing station would be such

that its operation would be so severely reduced as to cause injury to the public; in effect, that the public interest, public affairs, and programs would be seriously reduced.

The court decided in that case that in light of that allegation, we could not grant the new station without an evidentiary hearing.

Mr. BOLAND (reading):

Booz, Allen & Hamilton in its recent appraisal of the Commission's activities, singled out as a key factor the need to strengthen the capacity of the Bureau to undertake economic and social analysis * * *.

Is there a request for additional personnel as a result of this paragraph?

Mr. SHERIDAN. Just one-half of a man-year.

Mr. BOLAND. Put page 41 in the record.

(The page follows:)

Research and education

This activity, centered in the Research and Education Division, is concerned with the compilation of data on the condition and status of the broadcast industry and the study of social and economic factors affecting broadcast communications. The development and promotion of both educational and commercial broadcast services is also of concern in this area.

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
AM	3.6	3.9	3.9	
FM	1.1	1.2	1.2	
TV	6.6	7.2	7.7	0.5
Total	11.3	12.3	12.8	.5

During the past several years the Commission has been engaged in a growing number of proceedings requiring expert economic and statistical assistance. These include congressional hearings (viz, political broadcast surveys 1960 and 1962, ratings investigation, and newspaper ownership); rulemaking proceedings (AM allocations, FM allocations, UHF allocations, subscription TV, network inquiry); evidentiary hearings ("economic inquiry" cases under the Carroll issue); and application processing (development of revised minimum financial requirements, development of a scientific sample for in-depth processing of renewal applications).

Booz, Allen & Hamilton in its recent appraisal of the Commission's activities, singled out as a key factor the need to strengthen the capacity of the Bureau "to undertake economic and social analysis" and "to pursue lines of inquiry and develop recommendations on major matters of policy as they emerge." The Commission is faced with major policy decisions in a number of areas requiring detailed study and analyses of critical economic and social factors. In a number of these areas (superpower in AM, subscription TV, ratings, newspaper ownership, political broadcasting) direct congressional concern with the economic and social aspects is clearly evident. With the increased interest in educational broadcasting throughout the Nation, the new Educational Broadcasting Branch has received a great number of requests for information and assistance from educational organizations. This interest was stimulated particularly by congressional enactment of Public Law 87-447 which provides Federal matching grants to encourage the development of educational television. The Branch, working closely with the Department of Health, Education, and Welfare, developed the procedures to facilitate joint processing by FCC and HEW of applications for new or modified ETV facilities where such processing involves both agencies. The Branch participated with HEW in regional meetings to advise and assist on availability of ETV facilities and the rules governing their use.

NETWORK STUDY

Mr. BOLAND. Network study, on page 43. [Reading:]

The Office of Network Study is charged with overall responsibility to study, report on, and make appropriate recommendations, on a current basis, regarding policies and practices of radio and television network organizations, insofar as such policies and practices affect the ability of station licensees to operate in the public interest.

This activity has 7 people, and you ask for the same for 1965.

Mr. HENRY. I might add, they are quite active at this point, and will be on into the fiscal year. We are giving further consideration to taking some measures in the area of network control arising from our study of the networks which has been going on for some time. It is one of our major projects, and it relates back to the question which was raised earlier about the concentration of control and ownership and direction of what goes over the air, because the networks are more and more the three major sources of program supply.

We are studying whether there are not some means of loosening up this control so more creativity and different approaches, and so on, can be permitted into the system.

Mr. BOLAND. Are the problems just as severe in 1965 as they were in 1963?

Mr. HENRY. Yes.

Mr. BOLAND. You had 7.6 in 1963 and 7.2 in 1965.

Mr. HENRY. Yes. I do not know the exact reason for that. It is roughly the same. They have been quite active through the whole course of their existence.

Mr. BOLAND. Put page 43 in the record.

(The page follows:)

Network study

The Office of Network Study is charged with overall responsibility to study, report on, and make appropriate recommendations, on a current basis, regarding policies and practices of radio and television network organizations, insofar as such policies and practices affect the ability of station licensees to operate in the public interest.

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965
AM	1.1	1.0	1.0
FM	.4	.2	.2
TV	6.1	6.0	6.0
Total	7.6	7.2	7.2

A comprehensive public inquiry concerning network television programing under Commission Docket No. 12782, spanning a period over the past 2 budget years, has been published by the Commission and adopted and published as a Report of the Committee on Interstate and Foreign Commerce of the House of Representatives. Certain of the recommendations included in the report relating to proposed Commission rules concerning ownership by networks of television programs and program syndication activities, are scheduled for early consideration by the Commission.

Other recommendations, if adopted, will require submission by the national television network organizations of comprehensive informational statements disclosing the whole range of their current policies and practices in the network television program procurement and exhibition process insofar as those policies

and practices relate to and affect the operations of the Commission's station licenses. Such statements will require study, analysis, and appropriate comment and recommendations.

Appropriate rules and regulations may be required should the Commission be empowered to regulate network organizations. Proposed legislation is currently before committees of the Congress covering this subject. Also contemplated within this activity is the establishment of liaison with universities and other academic groups, public and civic organizations, broadcast industry groups, and other interested and informed persons with the object of keeping the Commission informed on the broadest feasible basis of public opinion and attitude respecting broadcasting and particularly network-originated broadcasting.

Mr. BOLAND. Page 44, International. (Reading:)

This activity is concerned with international commitments and treaty obligations. * * *.

It shows you have the same request for personnel in 1965 as you had in 1964.

Are there any questions on this activity?

POPULATION AS A FACTOR IN TV ALLOCATION

Mr. JONAS. Have you any sort of rule of thumb which you follow as far as population is concerned, in granting a new license for a television station?

Mr. HENRY. In allocating a channel to that community?

Mr. JONAS. Yes.

Mr. HENRY. Population is one factor which is taken into consideration in establishing the overall allocation system; yes.

Mr. JONAS. It would not be the only factor?

Mr. HENRY. No; it would not be the only factor.

Mr. JONAS. What other considerations?

Mr. HENRY. Of course, the primary one is the technical one; that is, what frequencies will fit in where. We have established an FM allocation, the same way we have television. We are presently studying a revision of the AM rules to determine whether we should have some of these allocation concepts come over in to the AM field as well as FM and television.

They involve number of stations presently in existence, population, not only where the population is but what the population trends are, and so on.

ECONOMIC ISSUES IN CONSIDERING APPLICATIONS

Mr. JONAS. In considering the granting of a license for a new channel for television, do you take economic factors into consideration, such as profit and loss statements and the opportunities of the station in existence?

I am not making that very clear, but you see what I mean.

Mr. HENRY. There are a number of considerations. First of all, if someone seeks a license to operate a broadcast facility, he must establish basic financial qualifications.

Mr. JONAS. I mean do you consider the profitability of the existing station?

Mr. HENRY. We do if we are called on by a station or stations in the community.

Mr. JONAS. Which objects?

Mr. HENRY. Which objects. They cannot object on the sole ground that they might lose money because of a competitor coming into the market. They have to allege and substantiate that they will lose enough money, in effect, so their public service operations will be severely retarded.

Mr. JONAS. That is all.

SAFETY AND SPECIAL RADIO SERVICES

Mr. BOLAND. Let us turn to "Safety and special radio services activity," on page 45.

We discussed this a bit with Mr. Barr earlier today, and heard that in amateur applications there were delays of from 85 to 90 days; public safety and aviation, 30 to 40 days; industrial, 80 days last January. You are now cutting that down to 70 days (reading):

The safety and special radio services encompass the activities necessary for the discharge of the Commission's responsibility with respect to the licensing of stations for the purposes other than broadcasting or common carrier.

It is indicated you are asking for $1,537,430 in 1965, a decrease of $25,677 from the $1,563,107 that you had in 1964.

You are reducing the average employment in this activity by 6, 160.5 in 1964 and 154.5 in 1965.

Mr. HENRY. Of course, the principal reason for that is the installation of the computer to take up some of the application processing work.

Mr. BOLAND. We shall put page 45 in the record and the narrative at the top of page 46 and the table at the bottom, showing the total actual and estimated application workloads for all services and the average employment requested.

(The material follows:)

SAFETY AND SPECIAL RADIO SERVICES ACTIVITY

INTRODUCTION

The safety and special radio services encompass the activities necessary for the discharge of the Commission's responsibility with respect to the licensing of stations for the purposes other than broadcasting or common carrier. This group represents the use of radio by industry, business, forestry, ships, planes, police, etc. These estimates include the time of hearing examiners, review board, opinions and review, and the Docket Division of the Office of the Secretary devoted to these activities.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase or decrease
Personnel compensation	$1,236,055	$1,323,728	$1,286,779	($36,949)
Personnel benefits	91,927	91,958	93,761	1,803
Other obligations	117,695	147,421	156,890	9,469
Total	1,445,677	1,563,107	1,537,430	(25,677)

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase or decrease
1. Application processing	120.0	101.5	94.5	−7.0
2. Regulatory activities	33.8	40.9	40.9	0
3. Legal, policy, and enforcement activities	9.3	12.2	13.2	1.0
4. Hearings	3.8	5.9	5.9	0
Total	166.9	160.5	154.5	−6.0

JUSTIFICATION BY ACTIVITY

Application processing

This section covers the requirements of the Safety and Special Radio Service Bureau for work related to the processing of applications for licenses in the various services regulated by this Bureau. It includes the clerical, and in many cases, the professional examination of applications, the preparation of all related correspondence, the maintenance of licensee records and files, the development of application forms and instructional material, and the handling of assorted inquiries and correspondence related to application filing fees, status of applications, etc.

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Decrease
Average employment	120.0	101.5	94.5	−7.0

Most of the changes and conversions necessary to permit a number of application processing procedures, notably in the amateur and citizens radio services, to be taken over by the computer will be completed in 1964. All the planned computer operations affecting the safety and special radio services are expected to be complete by the close of 1965. We, of course, lack experience on which to base staff requirements but estimate substantial reductions in staff in some of the areas such as the citizens and amateur services where the volume of applications is greatest. In other areas, such as the industrial and land transportation services, we do not foresee, because of the nature of the applications processed, the possibility of any such immediate reductions.

Application processing operations performed in the Safety and Special Radio Services Bureau are scheduled to be among the first to be adopted to electronic data processing techniques. Some of these operations were originally scheduled for July 1963 but there have been delays in installation of the computer and initial operations are now tentatively scheduled for February 8, 1964. The impossibility of assuring complete conversion to the new system on a fixed date, transition problems, and the extent of the rejects on cases which will require hand processing, all contribute elements of uncertainty to the prediction upon which estimates of 1965 requirements must be based. We have assumed however a schedule of conversion as follows:

Service	Percentage of applications to be processed by computer	Date of complete conversion
Citizens radio	85 percent	Feb. 8, 1964.
Amateur radio	90 percent	Do.
Marine radio	70 percent	May 1, 1964.
Aviation radio	60 percent	July 1964.
Public safety radio	The percentage is undetermined in these services at this time.	After July 1964.
Industrial		
Land transportation		

Application receipts in the safety and special radio services constitute by far the largest tangible and inescapable workload with which the Commission deals. Licensees in those services totaled 1,131,910 at the end of 1963; application receipts for that year reached 489,184 and are expected to reach 605,667 in 1964 and 616,395 in 1965.

The following table shows the total actual and estimated application workloads for all services and the average employment requested:

	Actual, 1963	Estimated, 1964	Estimated, 1965
Applications pending beginning of year	46,310	58,399	45,366
Applications received during year	489,184	605,667	616,395
Workload	535,494	664,006	656,483
Applications disposed of	477,095	623,978	643,941
Applications pending end of year	58,399	40,088	12,542
Personnel requirements	120	101.5	94.5

Mr. BOLAND. On page 47, "Amateur and disaster services." There is a decrease in the manpower requirements.

Put in the workload on page 48 for "Citizens radio service."

"Aviation radio services," page 49, the workload. "Industrial radio services," the manpower requirements. Put in the narrative at the bottom of page 49 and the workload on page 50.

For "Land transportation services," you are looking for two additional people in 1965. Put in the workload on page 50.

For "Marine radio services," manpower requirements and applications; you show a decrease in manpower requirements. For "Public safety services," you ask for no increase in the manpower requirements. Put in the workload on page 51.

(The material referred to follows:)

Amateur and disaster services

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Decrease
Average employment	13.4	5	3.3	−1.7

This service is scheduled for computer operation in February 1964 with a resulting staff reduction of 8.4 average employment in fiscal year 1964. A further decrease of 1.7 is expected in fiscal year 1965 because computer processing will be in effect for the entire year.

A slight decrease in receipts is anticipated due to the new procedure of issuing licenses for a full 5-year term when modified. We are estimating that the more complex and time-consuming applications, approximately 10 percent of the applications received, will require "off line" manual processing after conversion to computer operation.

	Actual, 1963	Estimated, 1964	Estimated, 1965
Applications pending, beginning of year	4,424	11,835	1,613
Applications received during year	119,971	119,590	117,690
Workload	124,395	131,425	119,303
Applications disposed of	112,560	129,812	118,878
Applications pending, end of year	11,835	1,613	425
Backlog in weeks	5.5	[1] 2	[1] 2
Personnel requirements	13.4	5	3.3
Productivity	8,400	([2])	([2])

[1] All applications received in good order which can be processed completely by computer will be disposed of within 1 week. The backlog in weeks represents the processing time for routine applications which are received in good order but require manual processing.

[2] Since processing will be done both manually and by computer methods, no productivity figure is shown.

Citizens radio services

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Decrease
Average employment	23.1	12.5	8.5	−4

A further decrease of 4 is made possible by computer processing during 1965. Application receipts are expected to rise during 1964 and 1965 resulting from the continuing growth of interest in this service, particularly for class D stations.

	Actual, 1963	Estimated, 1964	Estimated, 1965
Applications pending beginning of year	26,679	26,172	15,000
Applications received during year	221,332	314,972	325,000
Workload	248,011	341,144	340,000
Applications disposed of	221,839	326,144	339,280
Applications pending end of year	26,172	15,000	720
Backlog in weeks	6.1	[1] 4	[1] 3.0
Personnel requirements	23.1	12.5	8.5
Productivity	9,603	[2]	[2]

[1] All applications received in good order which can be processed completely by computer will be disposed of within 1 week. The backlog in weeks represents the processing time for routine applications which are received in good order but require manual processing.

[2] Since processing will be done both manually and by computer methods, no productivity figure is shown.

Aviation radio services

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Decrease
Average employment	11.1	11	8.6	−2.4

A decrease of 2.4 is expected due to computer processing which is adaptable to the aircraft and aeronautical fixed services. Of these, we estimate that we will have to continue to process by hand approximately 40 percent of the total receipts. A 60 percent reduction in original staff cannot be made because only the simple applications will go on the computer and the more difficult and time consuming ones will be done manually and will require engineering and legal review. Increases in overall application receipts will be generated by requirements for the use of type-accepted equipment, use of radio at controlled airports, modernization of equipment, increasing interest in aeronautical multicom service, and the normal growth pattern.

	Actual, 1963	Estimated, 1964	Estimated, 1965
Applications pending beginning of year	3,765	3,725	5,350
Applications received during year	38,380	40,125	42,475
Workload	42,145	43,850	47,825
Applications disposed of	38,420	38,500	46,925
Applications pending end of year	3,725	5,350	900
Backlog in weeks	5.0	[1] 13.8	[1] 2.0
Personnel requirements	11.1	11.0	8.6
Productivity	3,461	3,500	[2]

[1] All applications received in good order which can be processed completely by computer will be disposed of within 1 week. The backlog in weeks represents the processing time for routine applications which are received in good order but require manual processing.

[2] Since processing will be done both manually and by computer methods, no productivity figure is shown.

Industrial radio services

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Average employment	38.8	46.0	48.2	2.2

The increase will permit us to reduce the anticipated backlog to 6.9 weeks at the end of 1965. This backlog will still be higher than is desirable. Higher backlogs generate complaints and inquiries which have to be answered and which further reduce productivity. The complexity of applications in the industrial services increases yearly in proportion to the crowding of the spectrum thus requiring more processing time per application. As more effort is made to alleviate the congested bands by making more channels available and tightening specifications for equipment, application receipts tend to increase.

A number of rule revisions effective in 1964 requiring equipment changes will cause a considerable increase in filings for new stations and modifications in most of the industrial services. Small decreases in the power, petroleum, and special industrial services are anticipated, however. We expect to commence computer processing in the industrial services in fiscal year 1965 but so far, we do not foresee the possibility of eliminating many of the time consuming operations that the complex nature of these applications now require. Thus, the computer in these highly important services is not expected to greatly affect the speed of processing except in renewal of licenses and maintenance of files.

	Actual, 1963	Estimated, 1964	Estimated, 1965
Applications pending beginning of year	4,847	9,538	11,046
Applications received during year	43,331	56,676	55,000
Workload	48,178	66,214	66,046
Applications disposed of	38,640	55,168	58,322
Applications pending end of year	9,538	11,046	7,724
Backlog in weeks	12.8	10.4	[1] 6.9
Personnel requirements	38.9	46.0	48.2
Productivity	996	1,199	[2]

[1] All applications received in good order which can be processed completely by computer will be disposed of within 1 week. The backlog in weeks represents the processing time for routine applications which are received in good order but require manual processing.

[2] Since processing will be done both manually and by computer methods, no productivity figure is shown.

Land transportation services

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Average employment	4.2	4.3	6.0	1.7

This increase will enable these services to maintain a 4.3-week backlog. The assignment of new channels and withdrawal of others will cause an increase of filings beyond normal growth. As in the industrial services, the advent of computer processing will have little impact on the speed of processing. The slight

savings resulting from the computer maintaining all future licensee records will be offset by the need for staff to reduce backlogs to a more reasonable level.

	Actual, 1963	Estimated, 1964	Estimated, 1965
Applications pending beginning of year	456	431	1,835
Applications received during year	5,856	8,592	8,500
Workload	6,312	9,023	10,335
Applications disposed of	5,881	7,188	9,552
Applications pending end of year	431	1,835	783
Backlog in weeks	3.8	13.2	[1] 4.3
Personnel requirements	4.2	4.3	6.0
Productivity	1,400	1,671	[2]

[1] All applications received in good order which can be processed completely by computer will be disposed of within 1 week. The backlog in weeks represents the processing time for routine applications which are received in good order but require manual processing.
[2] Since processing will be done both manually and by computer methods, no productivity figure is shown.

Marine radio services

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Decrease
Average employment	18.6	11.9	9.1	−2.8

A decrease of 2.8 is expected, due to the impact of automatic data processing. An estimated 30 percent will be problem applications to be partially processed manually. As in 1964, the increase in receipts is expected to come from the continued growth of the pleasure boat industry.

	Actual, 1963	Estimated, 1964	Estimated, 1965
Applications pending beginning of year	5,195	5,546	2,000
Applications received during year	40,959	41,620	42,730
Workload	46,154	47,166	44,730
Applications disposed of	40,608	45,166	43,740
Applications pending end of year	5,546	2,000	990
Backlog in weeks	7.1	[1] 6	[1] 4
Personnel requirements	18.6	11.9	9.1
Productivity	2,183	[2]	[2]

[1] All applications received in good order which can be processed completely by computer will be disposed of within 1 week. The backlog in weeks represents the processing time for routine applications which are received in good order but require manual processing.
[2] Since processing will be done both manually and by computer methods, no productivity figure is shown.

Public safety services

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Average employment	10.7	10.8	10.8	0

The workload is expected to increase approximately 4 percent over 1964 due in part to the accelerated growth of the local government service induced by a change in frequency coordination. In addition, an extensive reorganization and expansion of raido systems will take place in 1964 and 1965. Beginning October 1964, a small percentage of applications will be processed by computer,

however, no reduction in the staff is proposed. We believe that these small savings will be offset by the workload increase.

	Actual, 1963	Estimated, 1964	Estimated, 1965
Applications pending beginning of year	944	1,152	3,244
Applications received during year	19,355	24,092	25,000
Workload	20,299	25,244	28,244
Applications disposed of	19,147	22,000	27,244
Applications pending end of year	1,152	3,244	1,000
Backlog in weeks	3.1	7.3	[1] 3.0
Personnel requirements	10.7	10.8	10.8
Productivity	1,789	2,037	[2]

[1] All applications received in good order which can be processed completely by computer will be disposed of within 1 week. The backlog in weeks represents the processing time for routine applications which are received in good order but require manual processing.
[2] Since processing will be done both manually and by computer methods, no productivity figure is shown.

REGULATORY ACTIVITIES

Mr. BOLAND. Regulatory activities. There is no change in requirements here. Put in the narrative on page 52.

(The page follows:)

Regulatory activities

These activities consist of the formulation of new and revised rules, policies, and engineering standards; the issuance of interpretations of such regulations; analysis and construction of statutes and treaties, participation in Government and industry conferences on radio matters, both national and international; conduct of studies and developmental programs looking toward the more effective use of radio in the public interest; administration of compulsory ship safety radio requirements; analysis of legislative proposals and preparation of legislative recommendations; administration of the radio services, including a forms and procedures program, and development and administration of an enforcement program.

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Average employment	38.8	40.9	40.9	0

In relation to the regulatory activities, the Commission's attention is being called more and more to what is often referred to as the deplorable state of frequency shortages and congestion in the highly important Land Mobile Radio Services. The problem is common to the public safety, industrial, land transportation, and the citizens radio services of the Safety and Special Radio Services Bureau and to the vehicular communications systems of the Common Carrier Bureau. In particular, the demand for frequencies suitable for use by the highly important land mobile public safety services (fire, police, local government, special emergency, etc.) and the myriad industrial vehicular communications systems has long exceeded their availability under present spectrum allocations and station assignment principles. Industry is demanding that both more spectrum space be assigned and that more efficient assignment principles and procedures be instituted. These problems of the Land Mobile Services are reflected in numerous rulemaking proceedings now open or requested which require much more time and attention than the present staff can give.

Additionally, the Commission is considering more basic courses of action all of which will involve study and research. The Electronic Industries Association is now engaged in a comprehensive study of present frequency utilization throughout the entire country which is expected to point up possible areas for fur-

ther investigations by Commission staff. The Commission is seriously considering institution of a large Government-Industry Committee to study and evaluate possible solutions. Commission staff will be expected to assume a substantial part of the burden in directing the activities of such a study. Additional regulatory problems in the aviation, marine, amateur, and citizens services are related to normal growth patterns, and the increasing complexity of the operations.

All in all, considering the magnitude of the problems, we believe there is adequate justification for at least maintenance of the present staff for regulatory activities.

LEGAL, POLICY, AND ENFORCEMENT ACTIVITY

Mr. BOLAND. On page 56, put in the "Legal, Policy and Enforcement Activity."

(The page follows:)

Legal, policy, and enforcement activity

This activity includes legal and policy matters of special complexity and/or Bureau-wide application and significance; coordination of all rulemaking initiated within the Bureau; legislative matters affecting the Bureau's responsibilities; and special projects. This function also involves analysis of complaints and violation reports; determination of what enforcement sanctions should be instituted; investigations by written interrogatories and/or field inquiries; handling formal and informal compliance actions; and an educational program. Sanctions include station license revocations; cease and desist orders; suspension of operator license; monetary forfeitures against station licensees, operators, ships, and ships masters; and letters requiring satisfactory explanations of corrections of violations. The educational program is handled by explanatory letters, distribution of notices of sanctions imposed, bulletins, etc.

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Legal and policy	2.6	4.1	4.6	0.5
Enforcement	6.7	7.1	7.6	0.5
Total	9.3	11.2	12.2	1.0

Here again the modest increase proposed (1) is predicated on additions to the staff in 1964. Violation cases and general legal, policy and regulatory problems involving these radio services continue to grow. Pursuant to the recommendations of the Booz, Allen & Hamilton report, more rule coordination work, and policy and planning problems have been assigned to this office. There continues to be an inflow of enforcement cases and legal and policy matters in excess of current manpower capabilities, and a backlog exists in both major areas of actvity. The effects of the frequency congestion to which we have already referred have been worsened by inadequate and often ineffective enforcement procedures.

A program of imposition of small monetary fines, authorized by Public Law 87-449, has been in force for about 5 months in fiscal 1963, and the inflow of cases in this area is beyond current capacity to handle. It is expected that some additional personnel, in accordance with the estimate for 1964, will permit us to bring this total activity to a fairly current level. In this connection, as recommented by the BAH report, it is expected that the addition of a senior engineer to be made in fiscal 1964 will help considerably in policy and rulemaking work.

The consistent upward growth pattern in the number of stations licensed stimulates a similar growth pattern in the number of violation cases and the scope and complexity of legal and policy problems involving the regulation and development of the safety and special radio services.

Mr. BOLAND. Now we shall turn to hearings, page 57.

The table on page 58 indicates the manpower requirements for the various activities under hearings.

Are there any questions on this service?

NUMBER OF AUTHORIZED TRANSMITTERS AND APPLICATIONS RECEIVED

Mr. HENRY. I might add, if I may, Mr. Boland, in this particular service we have the bulk of our licensees. One of the tables shows we now have in excess of 1½ million authorized transmitters. We are getting in applications at the rate of 600,000 per year in 1964, and we estimate over 615,000 in fiscal 1965. I figure, if you put this on the basis of working days, we get almost 2,500 applications every working day, which is a little over 300 per hour that we have to handle.

I think this is considerably more than any other independent agency that I know about. It does constitute a serious workload.

FIELD ENGINEERING ACTIVITY

Mr. BOLAND. We will turn to field engineering activity, page 59. This represents the biggest bulk of your employment, does it not?

Mr. HENRY. It does. It is an increase of 31 man-years.

Mr. BOLAND. An increase of $331,262 for 1965 over 1964. You are asking for $4,778,716. You had $4,447,454 in 1964.

The big increase is due to pay increase and the 31 new jobs.

Insert pages 59 through 64.

(The pages follow:)

FIELD ENGINEERING ACTIVITY

INTRODUCTION

Field engineering activity covers functions required (*a*) to properly administer and enforce the Communications Act, rules and regulations of the Commission, and international treaties, (*b*) to render the unduplicated service the public and industry require in interference elimination, location of lost planes and ships by radio direction finding; and (*c*) the performance of all other related services.

Twenty-four district, 4 sub and 2 marine offices, 19 monitoring stations, and 3 mobile FM–TV enforcement units represent the field plant through which the functions are accomplished. Control of activities is exerted through a headquarters staff in Washington, D.C., by means of a continental teletypewriter circuit, by radio, and other landline circuits making possible prompt and effective responses to radio workload problems. Moreover, the basic nature of the field engineering system makes it a valid adjunct to the national defense posture.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Personnel compensation	$2,962,513	$3,279,000	$3,589,000	$310,000
Personnel benefits	220,615	243,240	254,000	10,760
Other obligations	852,994	925,214	935,716	10,502
Total	4,036,122	4,447,454	4,778,716	331,262

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
1. Enforcement	132.7	152.4	176.5	24.1
2. Monitoring	165.0	170.4	177.3	6.9
3. Application processing	86.7	86.7	86.7	
Total	384.4	409.5	440.5	31.0

JUSTIFICATION BY ACTIVITY

Enforcement

This relates to enforcement of radio laws, regulations and treaties applicable to Commission-licensed stations. A flexible enforcement program based on needs in the various radio services provides for determining compliance by licensed stations with both engineering standards and operational requirements. Inspections and concomitant engineering studies and measurements determine transmitting equipment capability. Monitoring observations establish operational procedures so as to insure legality and optimum frequency usage. Data resulting therefrom is utilized by the Commission in the application of sanctions and for rulemaking, frequency allocations, and in renewal licensing decisions. Investigations include location and suppression of unlicensed or clandestine stations and securing of evidence for prosecution where criminal laws have been violated. Sources of interference to licensed services, Government agencies, and to the public are located and eliminated with emphasis placed on the safety services.

Manpower requirements

	Actual 1963	Estimate 1964	Estimate 1965	Increase
Inspections	48.4	57.9	68.9	11.0
Investigations	84.3	94.5	107.6	13.1
Enforcement total	132.7	152.4	176.5	24.1
Inspections:				
Broadcast	25.1	30.3	33.3	3.0
Other	23.3	27.6	35.6	8.0
Total	48.4	57.9	68.9	11.0

Summary of increases: 3 inspection of broadcast stations (AM, FM, and TV); 8 inspection of other than broadcast stations including: 3 for growth in safety and special radio services (18 percent); 3 three microwave enforcement units; 2 small boat enforcement.

Broadcast

Inspection of broadcast stations (AM, FM, and TV) falls into three categories: initial, renewal, and special. Initial inspections are conducted after construction of the station has been completed but before a license is granted. The inspection provides a determination of compliance by the station with terms of the construction permit allowing the Commission to decide whether or not a license should be granted.

Renewal inspections of broadcast stations are conducted once during the license term to permit the Broadcast Bureau to act knowledgeably on renewal applications. A renewal inspection includes a detailed and comprehensive survey of a station's technical facilities, including engineering measurements, to determine whether the station is bing operated within the terms of the authorization. These inspections are essential to insure technically competent broadcasting service to the public. In addition, 50 percent of the standard broadcast station (AM) renewal inspections include checking pertinent areas of nontechnical operation (specifically, those with poor records). This data is used in analyzing performance of the station and making a determination as to whether the licensee has met his prelicensing promises and that license renewal is in the public interest.

The Commission in 1963 took enforcement action or applied sanctions against 58 broadcast stations which had been inspected in technical and nontechnical areas by the FEB.

Revocation actions instituted	5
Renewals designated for or continued in hearing	24
Short-term renewal licenses	9
Forfeiture actions[1]	20
Total	58

[1] Forfeiture actions resulted in assessments totaling $36,500.

The Commission's objective is to conduct renewal inspections of 75 percent of AM broadcast stations and renewal inspection of all FM and TV broadcast stations. The following table illustrates the Bureau's inability to meet these objectives because of lack of manpower.

	AM			FM			TV		
	1963	1964	1965	1963	1964	1965	1963	1964	1965
Total number of stations	3,997	4,150	4,300	1,445	1,600	1,800	757	780	800
Number of yearly renewal inspections necessary to attain Commission's objective	999	1,035	1,075	482	535	600	252	260	267
Number of renewal inspections	779	830	860	106	320	450	179	215	235
Number of inspections below objective	220	205	215	376	215	150	73	45	32
Percent of inspections below objective	22	20	20	78	40	25	29	17	12

Special inspections are generally made as a result of requests received from the Broadcast Bureau to determine whether previous conditions of noncompliance have been corrected by the licensee.

Operation of three FM–TV mobile enforcement units has proven of considerable value. In coordination with district office personnel the FM–TV units conduct inspections and engineering signal analysis of FM and TV broadcast stations. In addition to the enforcement aspect of the inspection, considerable technical guidance—based on technical observations—has been given to engineering personnel of the FM and TV stations. In nearly all cases the public has benefited directly through reception of better sound or pictures. This beneficial effect is greatly amplified when, as happened in one instance in 1963, signal analysis of a network television station by the FM–TV unit showed technical deficiencies resulting in poor quality monochromatic and color pictures. An investigation by the station and network traced the deficiency back to the common carrier system supplying the network. Correction of the condition resulted in improved reception for viewers in the entire southwest area of the country and a decision by the common carrier system to recheck the quality of program transmissions to other areas of the country.

The considerable increase in the number of FM stations broadcasting stereophonic transmissions requires, in the public interest, that increased attention be devoted to what has been categorized as generally poor technical performance by this class of station. It is important to note that complex engineering techniques and equipment are involved in making observations of transmissions by FM broadcast stations. It is planned to continue the FM–TV mobile enforcement unit program in 1965.

The estimated increase in manpower to perform the required broadcast inspections (initial, renewal, and special) for 1965 will be 3.0.

Other than broadcast

Safety and special radio services.—An optimum enforcement program is one where other than broadcast stations are inspected once during each 5-year license term. As there are approximately 3½ million licensed transmitters in operation, such a program is manifestly impossible due to cost and manpower requirements. A reasonable, and practical approach is to regulate the amount of enforcement devoted to each radio service on the basis of a continuing annual sampling and placing emphasis on services having a poor record of compliance.

A sampling inspection program of certain other than broadcast services was instituted in 1963 as recommended by the Booz, Allen & Hamilton management survey. The purpose was to determine the problem enforcement areas and project 1964 and 1965 manpower requirements based on such evaluation. The 1963 sampling survey specifically determined the degree of compliance with the Commission's rules in the following services: Fixed public (pt. 6), maritime land (pt. 7), public safety (pt. 10), industrial (pt. 11), land transportation (pt. 16), and domestic public (pt. 21). The survey included preinspection observation of the station's transmissions and followup inspection of technical facilities and station records. Two specific areas covered are described below:

In 1963 existing radio channels used by all land mobile services were split in

two so as to provide twice the number of channels in a given spectrum width. This frequency management technique is an attempt to meet the demands for more spectrum space by industry, small businessmen and State and municipal governments. The success of the "split channel" rules is necessarily dependent upon each station confining its signal to the assigned channel without causing interference to stations on adjacent channels by off-frequency operation or excessive modulation. During fiscal year 1963 16 percent of the stations checked were found to be operating off frequency or with excessive modulation. This is borne out on a practical basis by the number of complaints received from licensees reporting disruptive interference from stations on adjacent channels. It will therefore be necessary in 1965 to continue our efforts in making measurements of frequency and modulation.

The 1965 inspection program includes a continuation of inspection efforts in checking radio station towers installations to insure such towers satisfy license requirements as to height, location, painting, and lighting. This program is essential for the safe operation of aircraft, both military and civilian, and is particularly significant when a noncomplying radio tower is located near an airport. During 1963 inspections revealed 30 towers built in excess of authorized heights or at unauthorized locations. As a result of this information, the Federal Aviation Agency determined certain of the towers were hazardous and licensees were required to reduce tower height or relocate to the authorized location.

The 1964 and 1965 other than broadcast programs are based on findings of the 1963 sampling survey including degree of noncompliance observed, type of violation (inspection and monitoring), and required investment of man-hours to achieve the desired results. The survey has been expanded to include these services: Small boats (pt. 8), amateur (pt. 12), and citizens (pt. 19). In general a minimum sampling factor of 5 percent has been adopted. This factor, based on the 1963 sampling survey, has been increased in proportion to the degree of noncompliance observed as set forth in the following table:

Number of sampling inspections to inspect once per license term

Service	1963	1963 sampling inspections conducted (percent)	Noncompliance (percent)	1965	1965 sampling inspections percentage	Number
Maritime, land	415	16.0	49	500	26.0	130
Maritime, ship	28,000	6.0	62	32,000	9.0	2,800
Aviation	21,000			22,000	10.0	2,200
Public safety	8,500	10.0	57	10,000	19.0	1,900
Industrial	21,500	4.0	63	27,000	8.0	2,200
Amateur	51,000	.1	27	60,000	.2	120
Land transmitters	2,800	14.0	69	3,300	32.0	1,100
Citizens	89,000			158,000	.5	800
Domestic, public	1,200	5.0	49	1,600	8.0	130
Mobile transmitters	357,000			450,000	.5	2,200

Manpower requirements to meet the needs due to continuing growth in Safety and Special Radio Services stations will require an increase of 3.

Microwave enforcement units.—The growing importance of the microwave regions of the spectrum for space-to-ground as well as terrestrial applications, increase the possibility of interference resulting from sharing by space and ground systems of the same frequency bands. Mobile enforcement facilities are required for investigation of interference in the microwave regions because of the typical line-of-sight nature of microwave propagation and high directivity of antennas commonly used.

The Commission has had two mobile microwave enforcement units for several years (one each on the east and west coasts), but budgetary limitations imposed by other important programs curtailed their use. An engineer should be permanently assigned to each of these two cars. It is also proposed that a microwave unit and an engineer be furnished for the Great Lakes and gulf coast areas, or a total of four new positions. This will require an increase of 3 average employment in 1965.

Small boat enforcement.—Electronics, as we know it today, had its origin in the installation of wireless communications equipment aboard vessels, solely for the safety of lives. For the same reason, many operators of small boats today voluntarily equip their vessels with radio communication facilities as a safety measure and, additionally, as a convenience. However, a continuing disregard of communication laws by numerous small boat operators who engage in chitchat on frequencies intended for distress, safety, and operational frequencies seriously impairs the use of these frequencies for distress and safety purposes.

The above situation, bordering on the chaotic, is compounded by a considerable volume of unlicensed operation by small boat operators and gross failure to properly identify their ship station by transmission of assigned call signs. Effective enforcement includes monitoring of transmissions and boarding offending vessels upon their return to port. At times it has been necessary to obtain the assistance of U.S. Coast Guard vessels and helicopters in these enforcement operations. These efforts greatly increase the amount of manpower required for effective enforcement.

There were 137,000 outstanding licenses in the small boat field as of June 30, 1963, an increase of 15,000 during 1963. A total of 1,815 inspections of small boats was made during 1963, 62 percent of which were in noncompliance with communication laws. In an attempt to bring order to the area of small boat operations, it is proposed to make 2,800 inspections in 1965. An increase of 2 average employment is being requested for this purpose.

The estimated increase in manpower to perform the required other than broadcast inspection for 1965 will be 8.

FIELD WORKLOADS

Mr. BOLAND. Where are you to use the additional 31 employees?

Mr. HENRY. The additional 31 employees are broken down 24.1 for enforcement; 6.9 in monitoring.

I can give you a pretty good breakdown on that if you would like it. I think it is quite an important part of our operation.

Mr. BOLAND. Yes. Proceed.

Mr. HENRY. As you will recall, we are attempting to bolster our Field Engineering Monitoring Bureau over basically a 3-year period as recommended by the Booz, Allen, and Hamilton people who made the study some years ago. This Bureau not only inspects and monitors; it also issues licenses. Last year it issued over 300,000 operator's licenses, 17,000 interimship station licenses, 25,000 applications for antenna markings and lightings, in addition to its inspection and monitoring duties. It inspects and monitors or has the responsibility for inspecting and monitoring all of our stations.

FIELD INSPECTION ACTIVITIES

In the field of enforcement we can turn to page 60. There we get into 11 men for inspections and 13 men for investigations.

In the field of broadcasting, going down to small (a) on page 60, we are requesting three men in addition to what we now have.

Only 75 percent of our AM stations are inspected during their license period. These inspections, when made, average about one-half day, and of that 1 hour is spent on the program.

Mr. THOMAS. If you increase your activities it will take an army. These people have the certificate and they know the value of it better than you do. They will not willfully jeopardize their interest in it.

If you once start giving them the once-over here and there the request is modest, no question about it, but we lead up to a young army when you get into the inspection business.

We have one agency which wants to go to every manufacturer. It would take three armies. Out of the 800 stations, before you know it you will have to do a good job on this one, a better job on the competitor, you have people coming to you telling you about something a little out of line, and I doubt if you could do a better job with 300 to 400 more than you can with what you have here now.

What do you have now for AM and FM?

Mr. HENRY. 409.

Mr. THOMAS. In the field engineering it is about 400?

Mr. HENRY. 410. We are requesting 440.

Mr. THOMAS. That is one of the big increases.

Mr. HENRY. It is the largest.

Mr. THOMAS. You had better put the people in the special services and cut down that backlog and perhaps give some of your colleagues a little extra help in the long lines.

You are doing a good job, though.

Mr. HENRY. I think this is one of the areas where most of the people who have had anything to do with it, myself included, feel we do need some increase. It is true that while a broadcaster has a cerificate, many of them are in small areas. Many of them become careless. They know they will not be inspected.

Then they begin——

Mr. THOMAS. But they are afraid of that mail. Customers listen to them, write that letter, and they will get the letter to the Commission.

Mr. HENRY. We are speaking primarily of the technical violations, locating the transmitter in the wrong place, and so on. These are the things that pollute the spectrum, get us involved in any number of interference complaints.

I don't know how many we have. We will get into that when we talk about enforcement.

We have something like a 51-percent backlog of interference complaints not investigated. That is because of lack of manpower.

Mr. THOMAS. Through the years you have had no serious departure from the rules laid down. You have a fellow who goes into business for the first time and you give him a set of rules. You have no serious departure, do you?

Mr. LOEVINGER. I would like to say a word. I think there is a misunderstanding here, part of which arises from the fact that broadcasting as the showcase part of the FCC business occupies so much of the attention here.

A large part of field engineering and monitoring is not broadcasting but purely technical monitoring of frequency allocation.

I would like to explain this because I think it is important.

INTERFERENCE COMPLAINTS

Mr. BOLAND. How many complaints have you had with respect to interference?

Mr. HENRY. If you turn over to page 65 that deals with the investigative workload statistics. Interference complaints received was 48,000 in 1964. Again you have to separate the broadcasting interference complaints from the nonbroadcasting interference complaints.

Most of the interference results from transmitters in other than the broadcast field, and getting back now to enforcement, of the 11 men requested only 3 are in the field of broadcasting, 8 in the field of other than broadcasting, 3 involved in the normal increase in the safety and special bureau, which, as I said, has more than a million transmitters licensed to it; 3 are for a specific job of manning some microwave cars. These are cars which have very high quality equipment in them designed to inspect the operations of microwaves in this country which are becoming more and more numerous and more and more important; two men we are asking for small boat enforcement. Practically every boat that navigates now has a radio of some kind or another. Our staff is just woefully inadequate to enforce this.

If you take this one small area, the more licenses you get in violation of our technical requirements the less efficient becomes the use of the spectrum.

It is conceivable that if you had enough people, off-frequency and otherwise, in violation of the technical requirements of the rules, you might have as much as a 20- to 25-percent limitation on the use you could make of that frequency.

INCREASE IN NUMBER OF COMPLAINTS

Mr. OSTERTAG. According to your reference regarding enforcement and investigation workload, you anticipate a total number of complaints received of 59,215 for the next year as compared with 48,142 for fiscal 1964?

Mr. HENRY. That is correct.

Mr. OSTERTAG. That is a sharp increase. Do you really anticipate you will have that many complaints?

Mr. HENRY. Yes, because we issue 29,000 new citizens-band licenses every month. We issue 10,000 amateur, 4,600 aviation, 3,600 industrial, 2,000 marine, and we issue over 50,000 licenses a month. This is an increase. These are new licenses.

Although there is some attrition this is pretty much the number of new transmitters that come on to the airwaves every year. These additional transmitters create this additional interference, particularly if they are not supervised.

Mr. OSTERTAG. The number of investigations will go down, percentagewise.

Mr. HENRY. Yes, because we don't have the manpower.

Mr. OSTERTAG. In other words, you will investigate——

Mr. HENRY. More, but——

Mr. OSTERTAG (continuing). About 30,000 out of the 59,000, or slightly over 51 percent, as compared with 55.8 percent for last year?

Mr. HENRY. That is correct. Any increase in total number of inspections is a plus.

Mr. BOLAND. You indicate that the number of complaints involves technical complaints which requires an inspection?

Mr. HENRY. Yes. All the complaints we are talking about here we can consider as technical complaints. Those which would be of a nontechnical nature would arise almost entirely in the field of broadcasting, and they would be handled by the Complaints and Compliance Division in conjunction with the Field Engineering Bureau.

For the purposes of our discussion that would fall to the Broadcast Bureau itself.

Mr. OSTERTAG. Average employment has increased by 13 percent in the field of investigations according to the justification.

Mr. HENRY. Thirteen men. It is 13 additional man-years.

TYPICAL INTERFERENCE PROBLEM

Mr. LOEVINGER. I would like to explain this further to Chairman Thomas. This field engineering and monitoring is essentially not broadcast monitoring. These are not people who listen to broadcasts and decide programs are good or bad, or that the fairness doctrine of equal time is or is not being observed. This is a matter of technical monitoring, the greater part of which is not in broadcasting.

I remember one incident which occurred. There is a complaint from the telephone company that the link between California and Hawaii was ineffective. This was a microwave length and they were not able to get through. There was some sort of disturbance on the assigned frequency.

The field engineering and monitoring office went out and with direction-locating equipment traced this down to a nearby Army base where they found there was a defective transmitter that the Army had which was broadcasting a sort of steady emanation, a steady emission on this frequency.

The Army was glad to have it called to its attention. It was repaired immediately and telephone service was resumed.

Mr. BOLAND. Couldn't the telephone company find this?

Mr. LOEVINGER. They haven't this kind of equipment. They rely on us by and large.

I was at the conference in Geneva, talking about the allocation of aeronautical frequencies——

Mr. THOMAS. We appreciate that. We know you have a lot of activity, enforcement, monitoring, application process, and two or three activities there.

Mr. LOEVINGER. Yes, sir.

Mr. THOMAS. At times we have gone further than you have. We have suggested some better equipment, more laboratories, and so forth.

I was addressing myself to purely the one narrow segment, and that is the enforcement area, where you had an increase of 24 jobs.

If you get into the strictly enforcement business you could build up an army and I doubt if you could do a better job with 300 employees than with the 150 you have now.

Mr. LOEVINGER. I am sure I agree with you. I feel strongly field engineering is a service enterprise we must maintain.

Mr. THOMAS. There I agree.

INVESTIGATIONS

Mr. BOLAND. You have a table on manpower requirements on page 65, showing an increase of 13. Insert that, and insert the middle paragraph on page 66.

(The material referred to follows:)

Investigations

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Average employment	84.3	94.5	107.6	13.1

Summary of increases

The steady annual increase in investigative demands on the field offices must be met by a corresponding increase in investigative engineers to accomplish these demands. An increase in average employment of 13.1 is deemed necessary to meet the requirements of 1965 as indicated by the following table:

Investigative workload statistics

	Actual, 1963	Estimate, 1964	Estimate, 1965
Complaints:			
Total interference complaints received	39,140	48,142	59,215
Total number investigations of interference complaints	23,959	[1] 26,930	[1] 30,706
Percent of interference complaints investigated	61.3	55.8	51.8
Backlog of complaints not investigated by FCC personnel	15,181	21,222	28,509
Investigations accomplished per man by investigative personnel	285	[1] 285	[1] 285
Major cases:			
Interference	464	509	570
Unlicensed stations	518	645	724

[1] The estimated total number of investigations of interference complaints accomplished during 1964 and 1965 are based on the figure 285 investigations per year per man. This was the actual number accomplished in 1963 and believed to be a reasonable workload average.

It is not intended that the table convey the impression that 28,509 interference complaints will go completely unattended during 1965. At least half of this number of complaints will be handled by self-help interference committees. There has been an increase in the number of these committees formed throughout the country. When such a group is available locally and the nature of a complaint warrants the actions, it is referred to the committee immediately. There are approximately 500 such interference committees which are active—a number sufficient to materially reduce the backlog of uninvestigated interference complaints.

A large majority of the complaints received concern interference to nonvital communications or to the reception of television or radio signals or other entertainment media and are not, per se, of an urgent nature. However, a terrific public relations problem is usually involved to the extent that if reasonable prompt service is not forthcoming, petitions with sometimes hundreds of signatures are received, not to mention complaints directed to Members of Congress, all of which place an administrative burden on the Commission staff. The public is becoming more aware of the added significance given an interference complaint when brought to the Field Engineering Bureau's attention through their congressional representatives. Interference cases opened through referral by a Member of Congress increased 22 percent in 1963. Correspondence originated in the Investigative Branch and directed to Members of Congress relative to interference complaints increased from 84 to 146 pieces in 1963, or an increase of 75 percent. In such circumstances steps need frequently to be taken at the expense of other work of higher priority and not infrequently involving a disportionate expenditure of time and effort. We are requesting a sufficient number of investigative engineers to give each complaint prompt engineering attention commensurate with a priority schedule which can be reasonably supported.

MONITORING

Mr. BOLAND. You refer to monitoring on page 68, with 177 people in 1965, an increase of 6.9 percent over 1964.

Put in the narrative on page 68.
(The page follows:)

Monitoring

This is a basic enforcement and service function which provides surveillance of the radio spectrum to insure that radio stations operate in accordance with their authorizations; also as a means to locate sources of serious interference to authorized radio services. Specifically, monitoring is the process of observing radio transmissions at a distance and measuring various properties of signals to: enforce compliance with laws, regulations and treaties; detect and resolve interference; collect operating and technical data required for promulgating regulations; detect and locate illegal, clandestine, or subversive radio transmitters; and assist distressed aircraft and ships by direction finding positioning.

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Average employment	165	170.4	177.3	6.9

Summary of increases

To work toward completing the staffing of continental secondary monitoring stations	5.0
To provide a skeleton staff for the Santa Ana, Calif., VHF/UHF monitoring station	1.9
Total	6.9

Because of the enormous demand for radio frequencies and the heavy traffic load that the spectrum bears, the enforcement and service function supplied by radio monitoring is vitally necessary to achieve the greatest possible use of the radio spectrum by the greatest possible number of users at the least possible cost. Without rule and treaty enforcement, almost all of our radio services literally would become paralyzed in a chaotic cacophony. The end product of every radio station is the on-the-air signal, be it telegraph, teletype, voice, facsimile, television, telemetering, or remote control signals and the inherent intelligence with which it is invested. There is no better way to obtain continued compliance with rules governing radio emissions than by making on-the-air observations of signals under actual operating conditions. Moreover, only through on-the-air monitoring can many international treaty regulations be enforced to protect U.S. interests and assure that U.S. stations will receive the full benefits of frequency allocation to which they are entitled.

In accordance with the recommendations of Booz, Allen & Hamilton, the 1964 budget outlined the urgent needs for strengthening our monitoring effort. Implementing the recommendations of the BAH report, the 1964 budget therefore set forth a 3-year program to reinforce our monitoring staff to meet growing demands for more effecive enforcement and solution of radio interference by observation and measurement of radio transmissions, and for increased collection of engineering and operational monitoring data to aid in frequency allocations and rulemaking. For reasons of economy, the manpower requirements of 45 positions to meet these needs were stretched out over a period of 3 years.

INTERFERENCE COMPLAINTS

Mr. BOLAND. You have a table on major interference complaints on page 69. Insert that.

Also insert the tables on pages 70 and 71. Page 71 gives you an idea of the workload.

(The information referred to follows:)

Each year our workloads increase far beyond the manpower and facilities available to handle them. Interference complaints must be given prompt attention since, generally speaking, interference to radio circuits is economically detrimental to important segments of our economy, and, besides, in many cases, actually

involve safety of life and property. Major interference complaints received from various U.S. military, civil government, and commercial concerns, including airlines, increased 34 percent last year over the previous year.

	1962 actual	1963 actual	1964 estimate	1965 estimate
Major interference complaints	1,657	2,260	2,930	4,034

Because of limited manpower, an increase in work requirements in one area of work results in neglect to another. Although local interference cases solved by the individual monitoring stations increased by 22 percent over the previous year, in the area of general cruising of the spectrum, through which a good share of enforcement and knowledge of general spectrum conditions are obtained, we fell woefully behind in 1963. Monitoring network alerts on unidentified stations fell to less than half while case bearings fell to almost half of the 1962 level. Radio surveillance which is accomplished by means of general cruising of the spectrum is too valuable to our country's welfare to forgo without incurring serious technical and security problems and possibilities.

	1962 actual	1963 actual	1964 estimate	1965 estimate
Local interference cases	4,930	6,002	7,000	8,000
Monitoring network alerts	8,014	3,436	4,000	4,600
Case bearings	45,624	25,950	30,000	35,000
Citations issued for violations, all types	14,749	15,357	16,800	18,000

The following statistics represent the major items of present and estimated future monitoring activities:

Workload

	1963 actual	1964 estimate	1965 estimate
Major interference complaints (source):			
U.S. military agencies	619	700	800
Civil government agencies	322	400	500
Commercial companies	1,293	1,800	2,700
Foreign governments	26	30	34
Total	2,260	2,930	4,034
Cases monitored and developed:			
Coordinated network operation:			
Interference	2,372	2,800	3,300
Other than interference	283	300	325
Reported by field stations:			
Interference	6,002	7,000	8,000
Other than interference	4,667	5,000	5,500
Total	13,324	15,100	17,125
Type of action:			
Monitoring net alerts	3,436	4,000	4,600
Signals identified and indexed	77,150	80,000	85,000
Total	80,586	84,000	89,600
Citations for violations:			
FCC licensed stations	9,650	11,000	12,000
U.S. Government stations	723	800	900
Foreign stations	4,984	5,000	5,300
Total	15,357	16,800	18,200
Long-range radio bearings:			
Case bearings	25,950	30,000	35,000
Search and rescue bearings	502	[1] 502	[1] 502
Total	26,452	30,502	35,502

[1] Unpredictable; last year's workload used as a basis.

Mr. BOLAND. You refer to ship certification on page 72, and radio operator applications on page 73. We shall insert those pages, and insert the last paragraph on page 74. Also insert the workload on page 75.

(The information referred to follows:)

Application processing

Under this heading are included (*a*) certification of vessels that for safety purposes are required by law or treaty to be equipped with radio; (*b*) examination of applicants and issuance of radio operator licenses in accordance with standards established by law, treaty, or regulation; (*c*) issuance of interim licenses to radiotelephone and radar ship stations as a safety measure and public serivce; and (*d*) processing of station license applications from the standpoint of air safety insofar as radio antenna towers are concerned.

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increases or decreases
(*a*) Ship certification	35.1	36.8	36.2	−0.6
(*b*) Operator licensing	35.2	34.0	35.3	+1.3
(*c*) Interim ship	5.0	5.3	5.6	+.3
(*d*) Antenna applications	11.4	10.6	9.6	−1.0
Application processing, total	86.7	86.7	86.7	0.0

Ship certification

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increases or decreases
Average employment	35.1	36.8	36.2	−0.6

For safety purposes certain vessels and passenger-carrying boats are required to be equipped with radio in accordance with the provisions of title III, parts II and III, of the Communications Act, the Great Lakes Agreement with Canada and the Safety of Life at Sea Convention. The Commission's enforcement is the minimum required by law necessitating survey and certification either annually or biennially. In the absence of any material change in the law the program is expected to continue at approximately the same level through 1964 and 1965. The slight reduction in 1965 is due to the fact that more than half of the biennial surveys required by title III, part III, of the act occur on even years.

	Actual, 1963	Estimate, 1964	Estimate, 1965	Decreases
Vessel inspections	4,477	4,750	4,600	150
Violation notices	1,846	1,950	1,900	50
Certificate of compliance	2,613	2,800	2,670	130

Operator licensing

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increases
Average employment	35.2	34	35.3	1.3

Statute, international treaty, and the Commission's rules require an integrated system of radio operator licenses which establishes minimum standards for the physical operation of the various radio services and classes of stations licensed by the Commission. The development of examination material, examination of applicants, and issuance of operator authorizations to those that qualify are responsibilities of the Field Engineering Bureau. Also, the Bureau has the

responsibility to initiate suspension action or the application of other appropriate sanction in the case of operator licensees who violate the basic Communications Act or rules pursuant thereto.

It is expected that there will be some reduction in the total number of applications filed in 1964 because of the assessment of fees which requirement will become effective in January 1964. Another factor will be the elimination of operator license requirements in the case of certain base stations operating in the public safety radio services. On the other hand, this trend will be partially counterbalanced by the new rules effective in April 1964 which will require improved qualifying standards in the case of operators employed at standard and FM broadcast stations. The overall application workload is expected to resume its upward trend in 1965 as follows:

Radio operator applications

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increases
Restricted radio operator permits	225,098	195,000	205,000	10,000
Commercial (other than RP's)	100,825	105,000	110,000	5,000
Amateur	21,825	22,500	23,000	500
Total	347,748	322,500	338,000	15,500

Interim ship

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increases
Average employment	5	5.3	5.6	0.3

Interim ship station licenses are issued by all field offices to provide for immediate operation of ship radiotelephone and radar stations thereby aiding navigational safety and providing a public service. This on-the-spot issuance avoids the delay incident to processing of the application for regular 5-year license in Washington. There has been a steady increase each year in the number of applications for such licenses and this trend is expected to continue in 1965.

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increases
nterim ship licenses	16,415	17,400	18,400	1,000

Antenna applications

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Decreases
verage employment	11.4	10.6	9.6	1

Applications for radio station licenses proposing new or modified antenna structures must be processed from an air hazard viewpoint to determine whether the proposed structures will constitute a menace to air navigation. In view of the function of the Federal Aviation Agency with respect to such determinations, the Commission has a responsibility to determine whether applications requiring notification to FAA are submitted to FAA.

Pursuant to the provisions of section 303(q) of the Communications Act, it is the responsibility of the Commission to assign appropriate obstruction markings to proposed antenna structures when required by the Commission's regulations in order to minimize the potential hazard to air navigation of such structures. Selected field engineers are the Commission's liaison with FAA regional offices in matters relevant to antenna hazard evaluations conducted by those offices.

It is expected that the implementation of the automatic data processing program beginning in the latter half of 1964 will eliminate from manual processing those applications proposing towers less than 150 feet in height and outside of

areas critical to airports. Field engineers will continue to participate at 1963 levels in regional FAA hearings that evaluate hazard potentialities of proposed towers.

The number of applications processed during 1963 reached a record high of 24,558 due to the continuing surge of applications for safety and special radio services and exceeded the previous high of 22,991 applications in 1961. This increase was met only as a result of quite extensive paid overtime. Based on budget forecasts it is expected that the volume of applications requiring antenna processing during 1964 will exceed the 1963 figure by approximately 14 percent; during 1965 there will be a slight decrease due to a decline in nonbroadcast applications. Utilization of automatic data processing procedures during part of 1964 will permit a reduction of about 0.8 in average employment in 1964 instead of an increase of 0.5 which normally would have been required with manual processing. Full utilization of automatic data processing procedures during 1965 will effect a further reduction of about 1 in average employment.

The estimated workload during 1965 is indicated in the following table:

Activity	Actual, 1963	Estimate, 1963	Estimate, 1965
Applications:			
Pending start of year	799	1,216	1,583
Receipts	24,975	28,492	27,575
Total workload	25,774	29,708	29,158
Processed:			
Manual	24,558	19,125	[1] 10,158
Automatic		9,000	18,000
Processed total	24,558	28,125	28,158
Pending yearend	1,216	1,583	1,000
Towers requiring obstruction markings	2,297	2,355	2,410
Regional FAA hearings in which FCC field engineers participate	64	64	64

[1] This total represents the more difficult types of applications requiring special manual analyses and coordination with FAA that have been rejected by automatic data processing, which only handles the simpler types of applications.

MOBILE TV ENFORCEMENT UNITS

Mr. BOLAND. You have the mobile TV enforcement units, one in Maryland, one in Nebraska, and one in California.

What sort of a unit is this?

Mr. TURNER. These are specialized mobile units with expensive equipment which is designed particularly to cover the television inspections from a technical standpoint.

Because of the expense and because of the specialized knowledge required of the engineer in charge of this equipment in making these kinds of surveys we have only three.

Mr. BOLAND. What is the cost of one, unmanned? What is the cost of the vehicle itself fully equipped?

Mr. TURNER. Something under $50,000, including the truck.

SEARCH AND RESCUE OPERATIONS

Mr. THOMAS. Somebody told us they were out 30 to 40 miles from a big airport, a plane was off course and the towers could not bring it down. These people here found them, got a fix on them and directed them in. Does anybody remember that occasion?

Mr. TURNER. We are in that particular business in regard to the use of our direction-finding equipment at the monitoring station. We were called upon under search and rescue operations and we are called on for this particular service often.

Recently in Alaska within the past 30 days we had a helicopter that was down. They didn't know where it was. It didn't know where it was, it was bad weather——

Mr. THOMAS. You can find one when he is down as well as up?

Mr. TURNER. If his radio operates. We took a bearing on the signal, the planes followed the line of direction we gave them, and they found the plane in a matter of minutes practically.

They were out there and we got a favorable comment from the military with regard to the assist we gave them. This is customary and standard operating procedure.

Mr. THOMAS. This is one of your most important bureaus, particularly the technical end of it. We have no desire to cramp you in some of the finest work you do.

COMMON CARRIER ACTIVITIES

Mr. BOLAND. Turn to common carrier, activity No. 5.

As Commissioner Henry indicated in his statement, this is a problem which contiues to grow. You are seeking $2,202,419 in 1965 as against $1,909,198, an increase of $293,221.

You are looking for 194.8 average employment in 1965, an increase of 23 man-years.

Insert page 81 in the record and the chart on page 82.

(The material follows:)

COMMON CARRIER ACTIVITY

INTRODUCTION

This activity covers the regulation of the rates, services, and practices of communications common carriers which furnish interstate or foreign telephone or telegraph service for hire to the public by wire, radio, or space communication, and the licensing of all radio used in common carrier communications including intrastate communications.

This function is accomplished through the Common Carrier Bureau and its three field offices and those segments of hearing examiners, Opinions and Review, the Dockets Division of the Office of the Secretary, and the Review Board which deal with common carrier hearing matters.

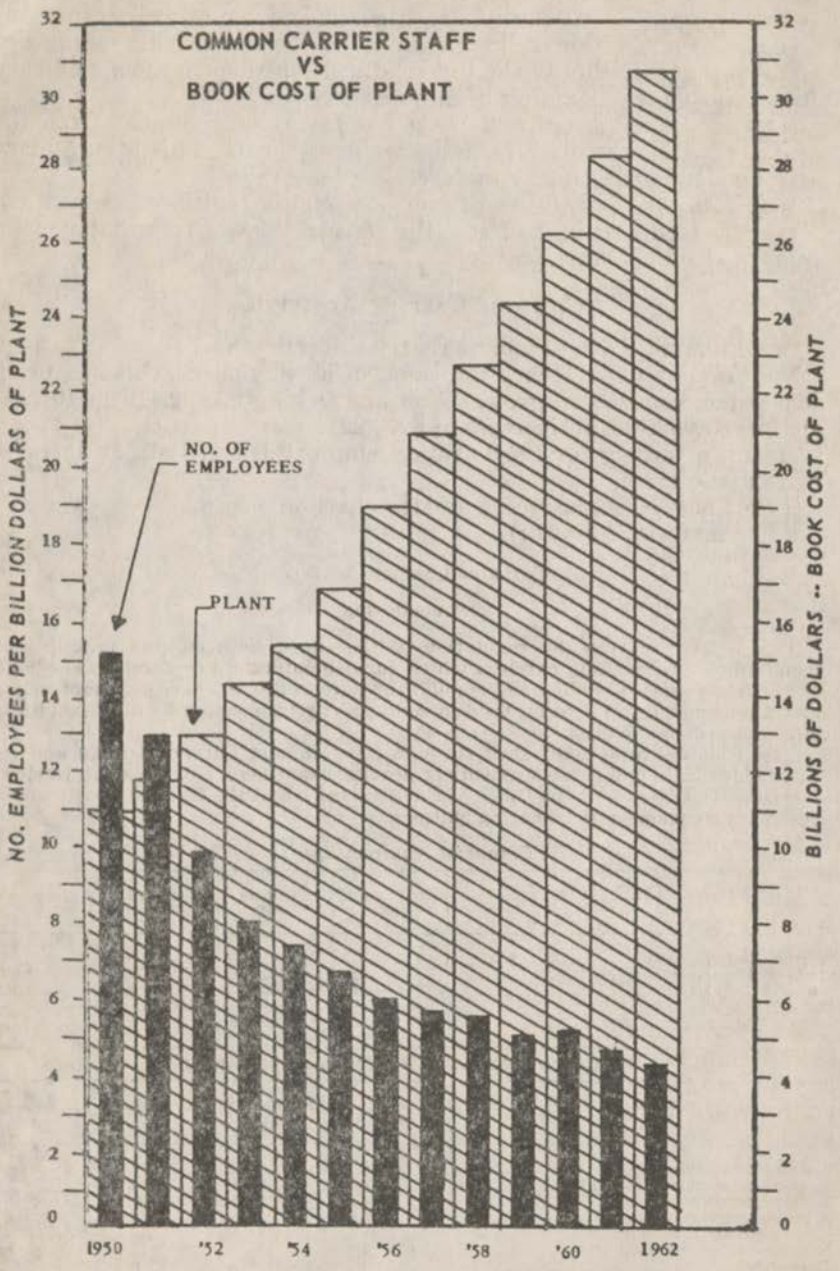
Financial requirements

	Actual 1963	Estimate 1964	Estimate 1965	Increase
Personnel compensation	$1,440,871	$1,682,855	$1,945,506	$262,651
Personnel benefits	107,627	121,066	141,713	20,647
Other obligations	97,275	105,277	115,200	9,923
Total	1,645,773	1,909,198	2,202,419	293,221

Manpower requirements (average employment)

	Actual 1963	Estimate 1964	Estimate 1965	Increase
1. Domestic rate regulation	48.1	54.2	62.7	8.5
2. Domestic service regulation	22.6	22.1	23.1	1.0
3. Domestic radio regulation	24.8	26.8	31.3	4.5
4. Accounting regulation	29.6	31.8	36.3	4.5
5. International communications	14.6	16.6	17.1	.5
6. Space satellite communications	9.4	13.4	17.4	4.0
7. Hearings	6.7	6.9	6.9	0
Total	155.8	171.8	194.8	23.0

The following chart is illustrative of the increasing workload versus the decline in the Commission's regulatory staff:


COMMON CARRIER STAFF
VS
BOOK COST OF PLANT
NO. OF EMPLOYEES
PLANT
NO. EMPLOYEES PER BILLION DOLLARS OF PLANT
BILLIONS OF DOLLARS -- BOOK COST OF PLANT
0
2
4
6
8
10
12
14
16
18
20
22
24
26
28
30
32
1950
'52
'54
'56
'58
'60
1962

Mr. THOMAS. Who heads up this division this year?
Mr. HENRY. Mr. Strasburg is now Chief of that Bureau.

MEMBERS OF TELEPHONE AND TELEGRAPH COMMITTEE

Mr. THOMAS. Which of the Commissioners sits with the Committee?
Mr. HENRY. Commissioner Hyde is the chairman of the Telephone and Telegraph Committee. Commissioners Bartley and Cox also are on that Committee.
Mr. THOMAS. They have been working in this specialized field for several years.
Mr. HENRY. All except Commissioner Cox, but he has a few ideas of his own.

DOMESTIC TELEGRAPH INVESTIGATION

Mr. BOLAND. The Commissioner has a statement in his presentation stating:

> These proceedings, which are well underway, involve an intensive examination of the competitive relationship between Western Union and the Bell System in light of the charge that the Bell System has engaged in selective pricing policies to the detriment of Western Union.

Have you moved against the Bell System at all?
Mr. HENRY. We are engaged in the investigation. We have a recent understanding with the Bell System to furnish us some cost studies for their various activities which we have never had before. It is a long, complicated proceeding, but so far I think it is proceeding satisfactorily.
Some of the questions involved in it are some of the same questions which arise in the international field; that is, what kind of competition there shall be in the furnishing of the relatively new services which involve new technology and new systems, that is the broad band data services and alternate voice records, and so on.
Mr. OSTERTAG. Do you investigate records of telephone companies?
Mr. HENRY. As part of the rate base? Yes.
Mr. OSTERTAG. Not so much as part of the rate base but their practices.
Mr. HYDE. We are asking for these studies so we can ascertain whether or not the different services are bearing their appropriate share of the costs.
Mr. HENRY. I think he is talking generally, though. What particular kinds of practices?
Mr. OSTERTAG. Well, I noticed that a complaint was filed against a certain company for overcharging on interstate toll calls and challenging the recordkeeping and billing for such calls. That falls within your jurisdiction and responsibility? That would be an investigation, would it not?
Mr. HENRY. That is correct. It is an adjudicatory hearing which we conduct from time to time.

RADIO USED BY COMMON CARRIERS

Mr. OSTERTAG. Of course, you are charged with regulation of rates and services and practices of communications common carriers which furnish interstate and foreign telephone and telegraph service for hire, and also the licensing of all radio used in common carrier communciations including intrastate.

What is the meaning of a radio used in common carrier communications? That is not the normal radio we think of.

Mr. HENRY. It is not broadcasting. That is microwave.

American Telephone & Telegraph Co., for example, in carrying telephone signals, television signals, or data signals from computer to computer will carry it on a narrow beam of radio energy from one hilltop to another. It will go from hilltop to hilltop via radio in the same way it would go if a cable were strung between those two points.

Also in the common carrier field we have the use of radio transmitters as we normally think of them to be used in connection with mobile telephones, paging services, and so on.

DOMESTIC RATE REGULATION—TELEPHONE

Mr. BOLAND. Insert page 83 and the narrative which continues for a number of pages here. This is telephone under domestic rate regulation.

(The information referred to follows:)

Domestic rate regulation

This activity relates to the regulation of domestic telegraph rates and tariffs and domestic and international telephone rates and tariffs, the revenue requirements of carriers, the cost of rendering services, and the depreciation rates used by carriers.

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Telephone	38.3	43.9	50.9	+7.0
Telegraph	9.8	10.3	11.8	+1.5
Total	48.1	54.2	62.7	+8.5

An increase of 8.5 man-years is requested for domestic rate regulation to more adequately regulate the rapidly growing telephone and telegraph industry in such matters as the investigation of new service offerings, separation procedures, interstate operating results, postaudit of tariffs and rates, prescription of depreciation rates, and to deal with Western Union's new Datacom service, its expanding Telex service, its private-line offerings, and certain rate matters involved in the overall investigation of the domestic telegraph industry.

Telephone

An increase of 7 man-years in average employment is requested to enable the Commission to expand its telephone activities to cover some of the areas in which the Booz-Allen-Hamilton report indicated the Commission has not had sufficient staff to perform its assigned tasks in telephone rate regulation as fully as desired by the Commission.

The rapidly growing telephone industry, consisting of the Bell System and more than 2,800 independent telephone companies, has a gross investment in plant exceeding $33 billion at the end of 1962 and over 81 million telephones in service. Economic growth, technological advances, and new service offerings increase the workload relating to rate regulation.

With the keen competition among carriers and between carriers and private communications systems, it is expected that 1965 will produce more activity in new, revised, and improved tariff offerings. The rates for these offerings will need careful scrutiny both as to level and structure.

With regard to toll telephone service, the Commission took the initiative in urging the adoption of a new rate schedule whereby a 3-minute station-to-station interstate call can be made between any two points within the continental United States (excluding Alaska) during the period from 9 p.m. to 4:30 a.m., for $1 or less, a decrease ranging from 5 to 75 cents. A decrease in additional period rates ranged from 5 to 20 cents.

Also placed into effect were changes in rate structures including increases of 5 or 10 cents in person-to-person calls up to 800 miles. These calls had not borne their proportionate share of the cost of furnishing such services. Based upon 1962 traffic volume, it is estimated that the net effect of these rate changes will result in an annual savings to the public of about $30 million.

The "after 9" plan associated with interstate long-distance message toll service was put into effect April 4, 1963. The preliminary traffic data we have received since that time indicates that there has been a shift in the peak calling time. We have not yet been able to determine whether further studies will be necessary before final conclusions can be reached as to whether any further changes should be made in the rate structure.

Other revisions of American Telephone & Telegraph Co.'s message toll tariff include regulations and rates in connection with telephone service with ships of foreign registry and interconnection with systems of miscellaneous common carriers for through service.

A new public offering was made in the Telpak tariff for high-speed data channels at 40,800 and 105,000 bits per second.

A modernization program is underway by A.T. & T. to reduce the number, reorganize, and simplify the existing tariffs which, for the Bell System, consist of 68 tariffs of some 4,300 pages. It is expected that this program will be completed and submitted to the Commission for review during fiscal 1965. Including non-Bell filings, 776 tariffs were on file at the end of the fiscal year with 9,368 revised or new pages having been filed during the year.

As can be seen from the foregoing, there are a considerable number of initial and final decisions to be issued. Since other parties to these proceedings are known to have contrary positions, the staff will be required to continue to devote a large part of its time to such matters.

The tariff modernization program underway by A.T. & T. will require time-consuming review by the staff. With the rapid change in services and the institution of many new services, it is considered very important to conduct an overall review of all tariffs and rate structures for the various services. Cost studies and the increasing complex rate structure problems in new telephone service offerings, such as WATS, WADS, Telpak, Telex, etc., require consideration of such matters as economic pricings, market surveys, statistical analysis, diversion of traffic, stimulation of demand, etc. Certain tariffs and rates (particularly in service to military) for which adequate cost data were not available at the time rates were permitted to become effective, require postaudit.

There is presently a backlog of 8 or 10 cases, both hearing records and petitions. For example, the *Telpak* case for which an initial decision is now pending, has been in process since early in 1961. Two new major hearings have been designated in recent months. Private Line Press and WADS–TWX, and it does not appear that there will be any letup in the foreseeable future. Currently we have about 15 man-years assigned to the work of hearings and decision writing. Consequently, there is too long a period between the dates that the investigatory hearings are initiated and completed. Meanwhile, the tariffs, by law, become effective even though suspended by the Commission. It is urgent that we reduce the backlog in these matters, and we are therefore requesting an increase of 2 man-years in average employment.

Hearings have been completed in the investigation of A.T. & T.'s Telpak tariff offering, which covered bulk voice, teletypewriter, data, and other forms of communication. Rates for larger users are significantly lower than comparable private line charges. Many interested parties intervened in the proceedings, the hearings have been closed and the initial decision is now pending. Because of the many controversial issues in these proceedings, it is fully anticipated that even though the final decision may be issued there will be much followup work required during fiscal 1965.

In the investigation of A.T. & T.'s wide area telephone service or WATS, the hearings have been completed and the case is awaiting an initial decision. WATS is a long-distance, station-to-station telephone service which makes available limited (measured time) and unlimited (full time) interstate calling within a maximum of six zones or calling areas at flat monthly rates.

The Commission concluded in an initial decision in the wide area data service (WADS) proceedings that some form of a WADS offering may be justifiable. While accepting some aspects of the WADS design, the Commission concluded that certain of the flat-rate aspects of the tariff were unreasonably discriminatory. An opportunity was given A.T. & T. to submit a new WADS tariff reflecting various modifications suggested by the Commission. An investigation into the lawfulness of teletypewriter exchange service (TWX) rates was instituted at the same time by the Commission and consolidated with the WADS proceeding.

The final decision in the *Private Line* case generally ordered A.T. & T. and Western Union to lower rates as to voice channels and to raise rates in regard to the private line teletypewriter services. Revised rates were required to be filed effective August 1, 1963, and refunds are to be made in certain instances by both companies. The Commission, on reconsideration, affirmed the final decision with the exception of rates charged the press which are stayed, pending an investigation into those rates. The U.S. Court of Appeals for the Seventh Circuit on July 31, 1963, issued a stay order against the effect of the operation of the Commission's orders in the *Private Line* case. A new proceeding has been initiated as to the rates charged the press.

The final decision in the *Private Line* case will make it possible for the staff to proceed with initial decisions in two cases involving the Department of Defense. The SAGE rate case and the charges and regulations for the ballistic missile early warning system (BMEWS) and the Command Post Alerting Network (COPAN) services.

An initial decision was issued in the *Doniphan Telephone Co. of Missouri* case which involved a request for a change in points of interconnection with the Southwestern Bell Telephone Co. A final decision, on May 22, 1963, limited the initial decision to a denial of Doniphan's request.

A complaint filed by the Thornell Barnes Co. alleged that Illinois Bell Telephone Co was overcharging the Barnes Co. for interstate toll calls as well as challenging the Bell methods of recordkeeping and billing for such calls. After 24 days of hearings, the case is open pending further filings and an initial decision.

Since 1947 the separations manual has been rewritten several times to incorporate the revisions in the procedures including the changes made effective in April 1962, which had the effect of shifting approximately $46 million from intrastate to interstate revenue requirements. The April 1962, revision enabled the States to reduce intrastate rates and, as of June 30, 1963, resulted in 41 States reducing rates over $41 million on an annual basis. This has alleviated, to some extent, the existing disparities between interstate and intrastate message toll rates.

The problem of disparity in interstate and intrastate message toll telephone rates is of continuing concern to the Commission and, nationally, amounts to about $270 million annually, priced at current toll rates. On separations matters, the Commission is always working closely with representatives of the Bell System and the National Association of Railroad and Utilities Commissioners (NARUC) Committee on Communications Problems. The demands on FCC staff time will continue to grow in this regard.

In order to effect the equitable separations of plant, expenses, and revenues between the State and Federal jurisdictions, as contemplated by the Communications Act, continuous study must be given to such matters as the new types of plant introduced into telephone operations as well as new services such as WATS and WADS and their effect on separation problems. Other matters requiring consideration are the effect on separations problems of (*a*) extended area exchange service, (*b*) the change in the uniform system of accounts which reclassified and transferred the investment in certain local loops used in connection with toll private line service to the toll account from the exchange account, and (*c*) the increased use of automatic machine accounting. In order to carry on a more effective cooperative program with respect to continuing studies of the procedures for the allocation of the investment, expenses and revenues between interstate and intrastate, including toll settlement arrangements between Bell and independent telephone companies, will require an increase of 1 man-year.

The continued study of the level of earnings from Bell System's total interstate operations require a substantial amount of time. The return on interstate

earnings to net investment in plant amounted to 7.7 percent for the year 1962, on a flow-through basis (including the effect on net operating income of the investment credit from plant additions authorized by the Revenue Act of 1962). Representatives of the Bell System have discussed this matter before the Commission, including the various pertinent factors, such as the financing problems, the construction program, message volumes, economic factors and methods for determining an appropriate level of earnings. In this connection, more intensive and extensive staff studies are necessary in the matter of basic revenue requirement studies including cost of capital, capital structure, rate base, etc., to determine the reasonableness of the level of earnings. It should be remembered that all these studies are complex and very time consuming and must be prepared with the knowledge that they will be subjected to the closest scrutiny. Moreover, these factors to be studied are the very essentials of regulation and should never be given the short shrift that lack of manpower inevitably imposes. In order to carry out the Commission's responsibilities in this matter, we need an increase of 1 man-year.

Western Electric Co. in 1962 reduced its prices to the Bell telephone companies on products of its manufacture which resulted in a savings of $40 million annually. The Commission's cooperative review with the National Association of Railroad and Utilities Commissioners (NARUC) of Western's prices, earnings, and costs has continued. The impact of Western's prices to Bell System companies can be seen when it is realized that by far the largest single expense (other than income taxes, maintenance expenses and operator's wages) of an operating telephone company is the depreciation expense on its plant and equipment.

Further work should be done on a restudy and analysis, including a review of the telephone equipment manufacturers of the costs of sales of manufacturing, supplying, servicing, and holding companies affiliated with telephone carriers and the payments made for license contract services and research and development insofar as such costs are pertinent to the cost of providing telephone services. An increase of 1 man-year average employment will be required to achieve our objectives in these matters.

The Commission is required to prescribe depreciation rates for communications common carriers which come under its jurisdiction. Depreciation rates are established and under continuous review for each class of plant and equipment devoted not only to interstate and foreign communications but also to intrastate and local exchange telephone service. During fiscal 1963, new revised depreciation rates were prescribed for eight Bell companies. Comprehensive studies and investigations as to the appropriate service lives and net salvages for all the various classes of telephone plant and equipment are, in general, scheduled to cover each Bell company once in each 3 years.

The considerable growth in recent years of the business services in the telephone station-apparatus field has resulted in the establishment of a separate depreciation study category to include all apparatus other than regular residence and coin telephones. Thus far, studies indicate that this type of apparatus has only about half the life of regular telephones. Developments in the station-apparatus field are expected to have a serious impact on the lives of telephone equipment. These include touchtone telephones, console-type switchboards with solid state circuitry, and electronic central offices.

Work has barely started on the preparation of a manual on depreciation for engineers in cooperation with the National Association of Railroad and Utilities Commissioners. This is a substantial task and FCC personnel have been requested to assume a large part of it. The new shorter guideline lives for tax depreciation announced by the Internal Revenue Service in July 1962, specifically exempted telephone and telegraph companies. It provided that where depreciable lives or depreciation rates have been established by this Commission, such rates are to be used in the computation of depreciation for tax purposes. Depreciation studies, for certain non-Bell companies subject to our jurisdiction, including RCA Communications, Inc., in addition to the scheduled prescription of depreciation rates for the Bell System companies will require an increase of 2 man-years average employment. At the present time, only 6 man-years are applied to this work which is wholly inadequate to accomplish the objectives set forth above.

DOMESTIC TELEPHONE REGULATION

Mr. BOLAND. The rapidly growing telephone industry, consisting of the Bell System and more than 2,800 independent telephone companies, has a gross investment in plant exceeding $33 billion at the end

of 1962 and over 81 million telephones in service. Economic growth, technological advances and new service offerings increase the workload relating to rate regulation.

General Telephone picked up a number the other day I saw in the paper.

Mr. HENRY. I didn't see that. A.T. & T. this year is increasing over $3 billion itself, a new plant which is roughly one-twelfth of the total expenditures for new plant in the country.

NUMBER OF TELEPHONE COMPANIES

Mr. OSTERTAG. You describe it as one big system and 2,800 independent systems?

Mr. HENRY. That is other than the Bell System, General Telephone, and so one.

Mr. OSTERTAG. Is that an indication that the telephone communications system in our country is spreading out into small entities rather than consolidating?

Mr. HENRY. I think I am correct in saying that the rate of growth is higher among the independent telephone companies than is the rate of growth in the Bell System as measured by the number of telephones.

A.T. & T. of course, continues to have the bulk of the telephone service in this country.

Mr. BARTLEY. The independents are quite an industry now. There were 15 million phones in 1934. There are about that many independent telephone companies now.

Mr. BOLAND. No. 2 company is General Telephone?

Mr. BARTLEY. Yes.

Mr. HENRY. I think the chart on page 82 also is extremely interesting insofar as our workload is concerned. It shows the increasing ratio between billions of dollars invested in common carrier plant and staff which we have to regulate the industry.

DOMESTIC TELEPHONE RATE REGULATION—WESTERN ELECTRIC CO.

Mr. BOLAND. Page 89 makes good reading on Western Electric Co. You speak of a savings of $40 million annually. We hope this results in lower costs to the users of telephones. Does it?

Mr. HENRY. Yes; it does. I might add this would be one of the main areas we would be concerned with with the new personnel we hope to get under this budget.

Western Electric sales exceed $2.3 billion annually. We have an insufficient staff to really investigate that particular area. We would like to do more.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

RESEARCH LABORATORIES

Mr. THOMAS. Is it true that the best laboratory in the country is Bell's Laboratory in New York?

Mr. LEE. With the exception of Government.

Mr. BARTLEY. There may be some larger ones. I think RCA Research may be greater than that of Bell.

Mr. THOMAS. We had a famous person and one of the outstanding scientists of the country here, Dr. Dryden. He gave a classical ex-

ample and we will never forget it—the value of spending money on research and development. He said: "I can give a good example. The railroads have spent nothing in the last 50 years and they are broke. Look at what Bell has spent and look at what they are doing."

He got no argument on that.

DOMESTIC RATE REGULATION—TELEGRAPH

Mr. BOLAND. We shall insert pages 90 and 91 with regard to telegraph.

(The pages follow:)

Telegraph

Western Union, as of December 31, 1962, had a gross investment of $541 milion in its landline system, an increase of $106 million during the year. However, gross landline operating revenue for the year 1962 amounted to $264 million, a decrease of $1.6 million from the high in 1961. This drop was due principally to the decline in public message volume which was only partially offset by increases in private line and Telex service revenue. Net income from Western Union's entire operations in 1962 was $10.6 million, compared with $12.2 million in 1961. Net income for 1962 reflects a Federal income tax credit of $3.5 million due principally to the use of accelerated depreciation in the calculation of Federal income tax.

The investigation of the domestic telegraph operations and services is now in progress, including among other things, a study of a number of areas pertinent to the need for message telegraph service. During the year at the request of the staff, both Western Union and the Bell System began collecting additional data and information which will be submitted at hearings to begin in September 1963. Despite the fact that this investigation is primarily concerned with telegraph services and operations, there are many rate aspects which must be dealt with during the course of, and subsequent to, the investigation.

On August 10, 1962, Western Union filed revised tariff schedules which would discontinue the company's practice of making certain reductions in its charges for each sent-paid messages filed by a customer over a tieline. The Commission suspended the proposed tariff schedules and instituted an investigation. Western Union later obtained special permission to substitute schedules reducing the effect of the discount but not eliminating it altogether. Western Union also filed revised tariff schedules effective November 23, 1962, increasing the charges for additional words (the words in excess of 15 in telegrams and in excess of 50 in day letter and night letter messages). On June 10, 1963, Western Union filed revised tariff schedules, effective July 10 and November 1, 1963, increasing rates for interstate message telegraph services and certain miscellaneous services.

New private line services for remote metering, supervisory control and miscellaneous signaling purposes have been established by Western Union in competition with similar A.T. & T. offerings. Also a new data-tape transmission service and a flat rate personal opinion message service have been established on an experimental basis for 1 year.

During the year Western Union filed 1,003 pages of domestic telegraph tariff material.

Domestic telegraph rate matters requiring attention of the Commission will include cost studies and rate structure problems in connection with Western Union's new data-com service and its expanding Telex service, as well as other new tariff offerings. Also the matter of basic revenue requirement studies (including cost of capital, capital structure, rate base, etc.) will require consideration. An increase of 1.5 man-years in average employment for domestic telegraph rate regulation will be required for the Commission to achieve an effective program in this matter.

STATUS OF WESTERN UNION

Mr. OSTERTAG. Western Union is the sole telegraph system in this country?

Mr. HENRY. Message telegraph, yes.

Mr. OSTERTAG. In other words, it is a monopoly in a sense that it is the only one?

Mr. THOMAS. They absorbed the other one, the other was about broke, and now both of them are broke.

Mr. LOEVINGER. They are having a tough time.

Mr. OSTERTAG. Is there a serious problem there? Of course, there is no competition. On the other hand, is it rapidly shrinking from the standpoint of being a lucrative means of communication?

Mr. HENRY. I would say the message telegraph service is not lucrative to the Western Union Co.

Last year we gave them a 10-percent price increase on message telegrams for interstate messages. They figured that the reduction in service that will result will gradually eliminate the increased revenue from that raise in about a year and a half, and I think they are counting on their other services to carry them through. It is on the other services they make their money.

Mr. THOMAS. What are their other services?

Mr. HENRY. Telex, the teletypewriter network, microwave services and private lines services. They bid on various jobs around the country. They are now building a $100 million investment in cross-country microwave systems.

Mr. BARTLEY. They find it necessary to close down certain offices. They go into drugstores, hotels, and so on.

Mr. THOMAS. They cannot close down a location without prior approval, can they?

Mr. BARTLEY. They come to the Commission.

Mr. OSTERTAG. You recognize their problem and you cannot get away from it. Is that right?

Mr. HENRY. That is in the message service. With respect to their company as a whole we think and they think that with their new investment in microwave plant and their contracts with defense, they are in a healthy condition at the moment, or soon will be.

DOMESTIC SERVICE REGULATION

Mr. BOLAND. Domestic service regulation is on page 91 indicating manpower requirements for telephone and telegraph, and you have a narrative on pages 92 and 93. Insert this material in the record.

(The information referred to follows:)

Domestic service regulation

The Commission regulates the services and practices of communications common carriers which furnish interstate or foreign telephone or telegraph service for hire to the public by wire, radio, or space communication. It acts on proposed mergers and acquisitions of properties, extensions, and reductions in service, and studies new techniques and engineering advancements in the communications art which are continually developing and presenting the Commission with new common carrier problems.

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Telephone	8.8	7.8	8.3	0.5
Telegraph	13.8	14.3	14.8	.5
Total	22.6	22.1	23.1	1.0

An increase of 1 man-year is requested for domestic service regulation for processing applications for new telephone plant construction and expansion of facilities resulting from rapid growth and accelerated introduction of new technological developments and to deal with telegraph service problems resulting from continuing decline in public message volume and increased number of applications to discontinue or otherwise curtail telegraph service.

Telephone

Telephone companies are expected to continue their rapid expansion and improvement in services and facilities during fiscal 1965. Additional requirements for message toll, private line, and special services continue to become greater each year. To meet this demand the American Telephone & Telegraph Co. is providing new coaxial cable and microwave radio trunk routes which, in the interest of national defense, avoid critical target areas, assuring continuation of vital services in case of national emergency. In passing on applications to construct new plant, the Commission is charged with the responsibility of determining whether there is adequate justification for the facilities and must be satisfied that the proposed facilities will be compatible with existing plant and will provide reliable economical and efficient service. This requires the Commission's staff to keep abreast of new developments and engineering advancements in the communications art. During fiscal 1963, 331 applications were authorized for construction of cable, wire, and carrier systems costing $241,320,000.

The scope of the telephone industry's construction programs and the extent of the Commission's application processing activity are illustrated by the following table:

Estimated construction costs authorized by the Commission

Fiscal year	Cable facilities and channelizing equipment	Radio relay [1]
1961 actual	$153,000,000	$72,000,000
1962 actual	143,900,000	89,500,000
1963 actual	241,320,000	97,386,000
1964, estimated	140,000,000	160,000,000
1965, estimated	130,000,000	170,000,000

[1] Engineers engaged in domestic telephone service regulation review applications for microwave radio relay construction permits from the standpoint of public need for the proposed communication channels to be derived therefrom, and to assure that the resultant facilities are efficiently integrated with existing facilities.

The Commission works with the Department of Defense and other Government agencies in developing ways and means to insure priority of use and continuity of communication services at all times, handles service complaints from users, and endeavors generally to assure that quality telephone service is made available to all users.

Telephone service regulation activity also includes analyzing and processing applications for certificates to consolidate or acquire telephone properties, and on applications for interlocking positions of directors and officers in telephone carriers.

The Commission is charged with the responsibility of resolving controversies between the various telephone companies as to interchange of facilities and joint services and may, on complaint or petition or on its own motion, require telephone carriers to (1) furnish service on reasonable request therefor, (2) establish physical connections with other carriers, or (3) establish through routes and provide facilities and regulations for operating through routes.

Although service regulation work is expected to increase in fiscal 1965, only a small increase of manpower of 0.5 average employment is requested over that authorized for fiscal 1964.

Telegraph

By 1965, Western Union is expected to have substantially completed the largest building and expansion program in its history including its transcontinental microwave radio network, new private line systems for the Department of Defense, other Government agencies and private users, and development of new

voice and alternate record-voice services. The Commission approved 42 Western Union applications in fiscal 1963 for the supplementation and extension of wire facilities to meet the increasing needs of customers for private wire telegraph services and for extension of lines and improvement of message telegraph service. Approximately 60 such applications are expected in 1965.

ADDITIONAL STAFF FOR TELEGRAPH REGULATION

Mr. OSTERTAG. Why do you need increased manpower with regard to telegraph?

Mr. HENRY. I don't think it is an increase in manpower in order to deal with message telegraph as you know it. The main increase we need is to regulate the overall industry of which telegraph is part and to make the studies necessary for us to make policy decisions affecting the telegraph industry, primarily in its relationship to the telephone industry.

There again that relates to these newly developed so-called broad band services which furnish the communication links between computers.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. BOLAND. Page 92 shows an interesting table. Equipment for 1964 was $140 million. You estimate for $130 million in 1965.

You have an interesting paragraph on page 93 referring to the largestprogram in this company's history.

I think that indicates they are going pretty strong.

DOMESTIC RADIO REGULATION

Page 95 refers to domestic radio regulation. You have an increase of 4 people, from 26 through 31.

Insert the narrative on pages 95 through 99.

(The pages follow:)

Domestic radio regulation

This subactivity consists of licensing and service regulation of domestic common carrier radio services, including developmental service, point-to-point microwave radio service, local television program transmission service, rural radio service, domestic public land mobile radio service, and jointly performing such functions with the Marine and Aviation Division of the Safety and Special Radio Services Bureau in connection with rendition of public service in Alaska and through land, maritime, and aeronautical stations.

Manpower requirements

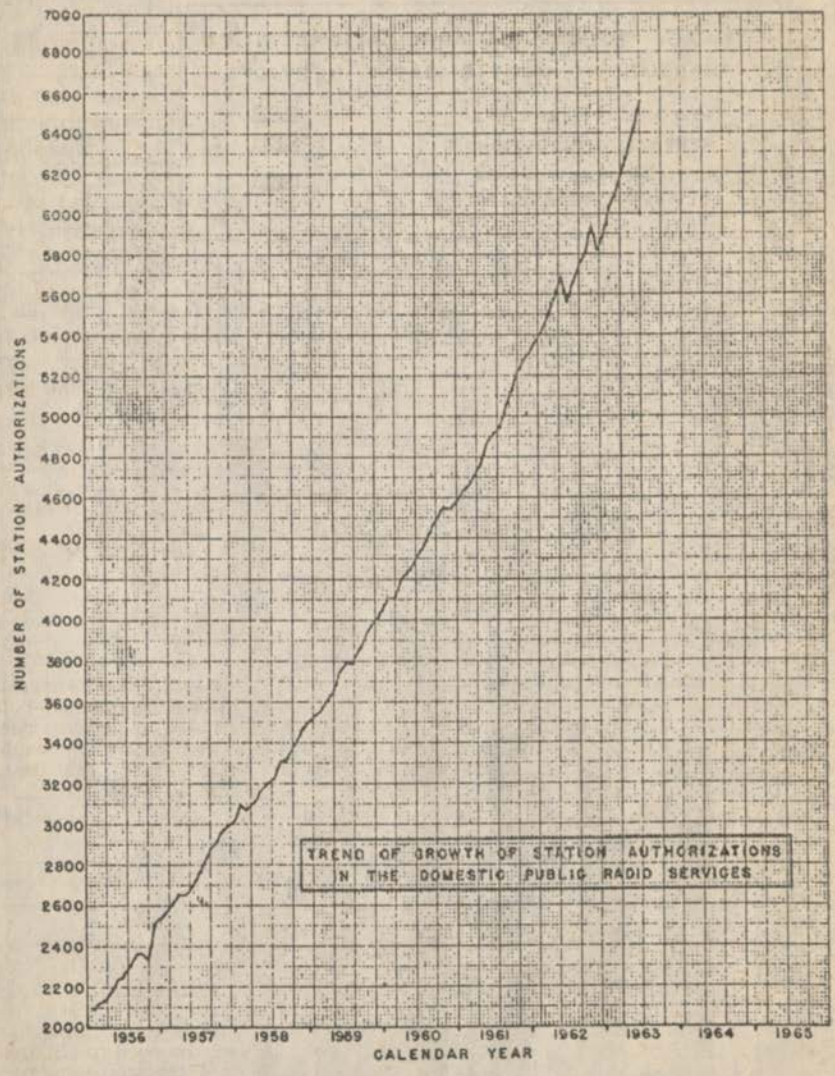
	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Average employment	24.8	26.8	31.3	4.5

An increase of 4.5 man-years of average employment is requested because of the increasing number of new applications filed each year, the need to eliminate the mounting backlog of applications waiting for processing, the increasing number of applications being set for hearing, and the increasing number of rule-making proceedings being instituted.

As the number of authorized stations increases, a greater number of more varied and complex problems are created for the Commission involving frequency allocations and assignments, development of new types of services, and maintenance and improvement of existing services. The amount of time required to

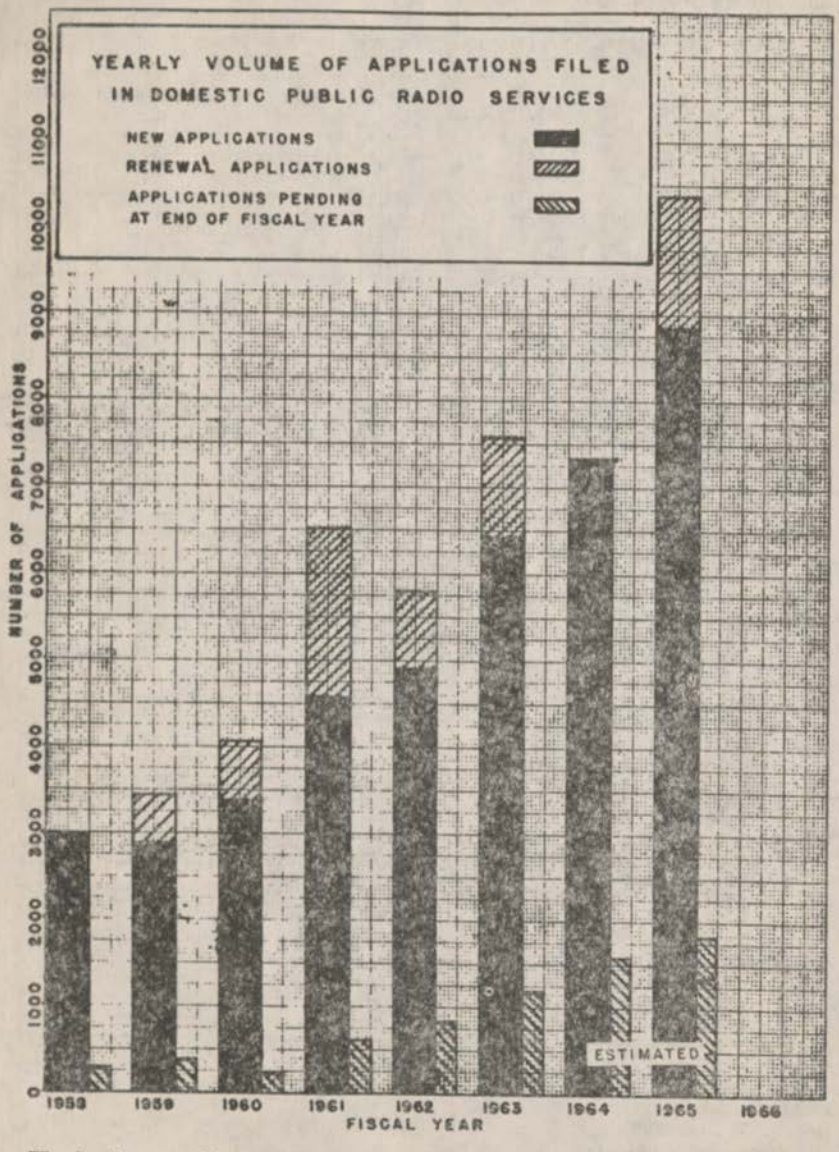
be spent by the staff in resolving these kinds of problems is also increasing and adds to the requirements. Furthermore, as both the number of applications filed and the number of station authorizations increase, there is a corresponding need generated for additional clerical help in the license branch, which is responsible for the paperwork connected with the receiving, classifying, and jacketing of applications and the issuance of the various Commission authorizations; e.g., construction permits and licenses.

The following graph shows the number of stations authorized each year from 1956 through June 1963:



During the 5-year period, July 1958 through June 1963, station authorizations increased more than 100 percent from 3,220 to 6,550. In 1963 the number of stations authorized increased approximately 17 percent over 1962. The same or a greater increase in the number of stations is expected to occur in both 1964 and 1965.

The following graph shows the actual number of applications received in each fiscal year, 1958 through 1963, and the estimated number of applications to be filed in 1964 and 1965:



The backlog pending at the beginning of 1964 represents a delay of approximately 5½ months in processing of new applications in the domestic public land mobile radio service and about 3¼ months delay in the point-to-point microwave service.

Although the graph shows a smaller total number of applications received in 1962 and 1964, it is significant that neither of these years was a renewal year, and that there is a constantly increasing number of new applications filed in each year over the preceding year. Renewal applications, with the exception of point-to-point microwave renewals of miscellaneous common carriers can generally be handled in routine fashion without any substantial need for additional professional personnel.

The graph indicates that the backlog continues to increase each year, but at a slower rate in 1964 and 1965 than the filing of new applications in those years. This results from an optimistic projection reflecting approximately 20-to 25-percent increase in efficiency in processing applications and an increase in productivity as a result of the hiring of additional personnel in accordance with this budget request. However, any attempt to substantially reduce the backlog must be based on the employment of additional personnel in excess of those requested in this budget.

In addition to the applications reflected in the graph for 1963 there also were 423 applications for special temporary authority filed, as contrasted with approximately 300 in 1962. The sharp increase in the filing of such applications stems from the increasing backlog of regular applications. Applications for special temporary authority are being used as a means of avoiding the delay incident to the backlog of regular applications by obtaining an interim or temporary authorization to operate. A substantial amount of man-hours is being expended in handling such requests and this diversion of man-hours from the processing of regular applications further aggravates and increases the backlog.

The increase in the number of applications for various types of common carrier radio facilities and frequencies is due to several factors. In the point-to-point microwave service as the reliability of radio facilities is improved, the landline telephone and telegraph companies employ a greater amount of less expensive radio facilities in place of coaxial cable and open wire. An indication of the expansion in radio facilities which is taking place is the amount of construction costs authorized or estimated to be authorized by the Commission for radio relay facilities: $89.5 million in 1962; $97.4 million in 1963; $160 million in 1964 (estimated); and $170 million in 1965 (estimated).

Many new service offerings are being made by both A.T. & T. and Western Union and these offerings such as WADS, TELPAK, and TELEX are designed to make extensive use of radio facilities when and if they either become fully effective or are finally approved by the Commission. The implementation of these services by the carriers will give rise to additional applications for radio facilities as well as create new problems.

In the domestic public land mobile radio service no great increase in the number of applications filed is forecast for 1964 because of the substantial occupancy of the channels currently available for such service in the major urban areas. However, several developments in this field, it is anticipated, will lead to a substantial growth in 1965. The narrow banding of radio equipment in order to make greater utilization of the frequencies available in this service will be substantially completed in 1964, and it appears that many of the obstacles in the way of interconnection between the facilities of miscellaneous common carriers and the facilities of the landline telephone companies are being eliminated. The greater realization in 1964 and 1965 of interconnection, which will permit direct conversations between mobile radio-telephone subscribers and telephone company survivors, will make this service more attractive to the public. Also the automation of mobile systems which are now manually operated should result in an improved and more attractive service. The combination of these factors together with an increasing demand by the public for all kinds of mobile services should produce a substantial increase in applications for construction permits and licenses in 1965 and add to the manpower requirement of the activity.

In connection with the development of a satisfactory air-to-ground telephone service the Commission has called for the design of an adequate system to meet the needs of the public by September 1964; otherwise a discontinuance of the developmental service will be required. In the event a satisfactory system is developed by or before September 1964 a substantial increase in the workload in processing applications and disposing of problems in connection with this new service will be experienced in 1965.

The amount of hearing work has been increased inordinately. In the point-to-point microwave service application by the miscellaneous common carriers, who use microwave primarily to carry television signals for customers who

generally are community antenna television (CATV) systems, have resulted in more hearing work than all the other types of domestic radio services. In fiscal 1963 there were 16 docketed proceedings before the Commission involving the licensing of microwave facilities and at the beginning of fiscal 1964 9 of these dockets were still open. It is estimated that in 1964 there may be as many as 12 additional cases set for hearing, representing about a 30-percent increase in hearing work over the preceding year.

ACCOUNTING REGULATION

Mr. BOLAND. There is accounting regulation on page 100 and the manpower regulation on page 101.

The primary purpose of accounting regulation is to insure basic data necessary for effective rate regulation.

Insert 101 and 102, and the bottom of page 103, International Communications, plus the table on page 104 and the narrative on that page.

(The information referred to follows:)

Accounting regulation

This subactivity relates to the prescription and policing of accounting, reporting, and preservation of records requirements necessary for effective rate regulation of telephone, wire telegraph, ocean-cable and radiotelegraph carriers engaged in interstate and/or foreign communications. This work is carried out by headquarters personnel in Washington and field personnel located in New York, St. Louis, and San Francisco; it is proposed that in 1965 a field office be opened in Atlanta, Ga. It also includes the statistical responsibilty in connection with gathering, studying, and publishing statistical data required by the Commission, other interested parties, and the public.

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Systems	6.1	6.5	8.0	1.5
Compliance	18.8	20.6	23.6	3.0
Statistics	4.7	4.7	4.7	
Total	29.6	31.8	36.3	4.5

An increase of 4.5 man-years is requested to provide for compliance and systems work in order to more extensively and intensively police the accounts of the subject carriers. In addition this increase will permit us to deal more effectively with the complex accounting problems arising from (*a*) communication carrier industry expansion and (*b*) rapid technological advances in the communications art, including developments in the area of space satellite communication.

Compliance and systems

The primary purpose of accounting regulation is to insure that the basic data necessary for effective rate regulation are reflected accurately and in a uniform manner in the books of the carriers. The reporting requirements provide for keeping the Commission continuously and fully informed of the operations of the carriers. Rules are also prescribed to require that records be retained for specified periods in order to prevent the premature destruction of records required for regulatory purposes.

Dynamic growth being experienced in the telephone industry requires continued policing of the accounting for additions to plant.

Advances in the art necessitate continued review and frequently change in the prescribed accounting regulations in order to provide for the orderly accumulation to the maximum possible extent of data used and useful for regulatory purposes.

Due to its extremely controversial nature, the accounting for the investment tax credit has required a substantial amount of time for review and consideration.

The growth in volume of business in the telephone industry leads to the establishment of an increasing number of operating divisions or areas within the companies. Since in most instances, the accounts are maintained in a similar manner, this increases the number of operating units for which separate policing of the accounts is required.

During fiscal 1963, the accounts of 11 Bell telephone companies and 4 non-Bell telephone companies were subjected to limited review. The reviews were directed to such matters as accounting for additions to and retirements of telephone plant, the establishment and maintenance of continuing property records, and the accounting for the cost of the conversion of teletypewriters from manual to dial operation. In the case of 10 companies, travel was involved. These reviews were, therefore, limited generally to 1 or 2 man-weeks. Five of the largest Bell compaines have headquarters in or within commuting distance of our Common Carrier Bureau field offices. Therefore, continuing accounting reviews are made of the headquarters and local operating area accounts, records, and procedures of such companies which are American Telephone & Telegraph Co., New Jersey Bell Telephone Co., New York Telephone Co., the Pacific Telephone & Telegraph Co., and the Southwestern Bell Telephone Co.

In addition to reviewing the accounts of certain telephone carriers, review was also made in 1963 of the accounts of the only wire-telegraph carrier regulated by us; namely, Western Union Telegraph Co. Review was made of the accounts of the three ocean-cable carriers, including Western Union, as well as of four of the six radiotelegraph carriers.

A comprehensive audit of the accounts of Western Union will get underway in 1964. Work will continue on this assignment as time permits. This project it is expected will extend through fiscal 1965.

In the field, continued accounting reviews will be carried out in fiscal 1965 in the offices of those telephone, radiotelegraph, and ocean-cable carriers which have offices in or within commuting distance of those cities where our common carrier field offices are located; i.e., New York, St. Louis, and San Francisco.

It is anticipated that substantial time will be required to be devoted to writing accounting rules in the satellite communications field in 1965.

In 1965 it is contemplated that a substantial amount of time will be devoted to a study to modernize and otherwise revise the Commission accounting rules in order that the subject carriers may be better able to make full and effective utilization of machine accounting and electronic data processing.

Due to the continually rising price level of telephone equipment the accounting for purchases and exchanges of telephone properties is becoming both more complex and controversial.

Under currently projected plans further progress will be made in 1965 looking toward the placing of the review of telephone carriers' accounts on a scheduled basis where each company will be visited at least once every 5 years.

Statistics

The common carrier statistical responsibility is concerned primarily with gathering, studying, and publishing statistical data required by the Commission, other interested parties, and the public.

This includes (i) compilation annually of "Statistics of Communications Common Carriers," sold by the Government Printing Office, (ii) compilation and publication of monthly summaries of operating data of communication carriers, and (iii) receives annual reports of miscellaneous common carriers.

As a byproduct of this activity, information useful in enforcing compliance with the Commission's accounting and reporting requirements and in rate regulation is obtained. The data available in the reports of the miscellaneous or radio common carriers are valuable in the Commission's regulation and licensing activities relating to such carriers.

It is contemplated that the statistical activities will be maintained at substantially the same level through 1965. For this reason, no change in average employment is expected.

International Communications

This subactivity covers regulation of common carrier (*a*) point-to-point rates (except telephone) and services between United States and oversea points and (*b*) marine telegraph rates and services involving ships at sea; rate level and

structure, discriminations and preferences, licensing of expansions and curtailments in cable and radio facilities, radio frequency clearance, assignment and use; preparation for, and attendance at, international conferences relating to telecommunication matters, as well as implementation of decisions reached at such conferences.

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Rate regulation	7.5	8.5	9.0	0.5
Service regulation	7.1	8.1	8.1	
Total	14.6	16.6	17.1	0.5

An increase of 0.5 man-year is requested to provide for increased regulatory activity which will accompany the expanding worldwide communications and the accommodation of rapid developments in the industry. Justification for the present and increase in manpower is given in detail in the following paragraphs.

Rate regulation

General.—The industry continues in its most dynamic phase in recent decades. The advent of new technological developments offering vastly increased capacity requires modifications and possible reconstruction of the institutional structure. Considerable study is required to assess the implications on rate policy which will result from the financial readjustments in this process. Establishment of the Communications Satellite Corp. creates a wholly different broad area of problems in international rate regulation, while another stems from use by telegraph carriers of broadband telephone cable facilities.

Study of international communications industry

A comprehensive study of the organizational framework of the international telecommunications industry is made necessary by two major developments (1) creation of the Communications Satellite Corp. and (2) the forthcoming transistorized overseas telephone cables. The great capacities and cost characteristics of translated cables of the telephone company could pose a serious survival problem for the Satellite Corp. and jeopardize the establishment of a global communications satellite system, as well as aggravate existing problems of the international telegraph carriers. The study will determine what changes, if any, should be effected in existing international communications policy and in the structure of the industry, and the steps, including legislation, which should be taken.

ROLE OF COMMISSION IN REGULATION OF SPACE SATELLITE COMMUNICATIONS

Mr. HENRY. What we will undertake there, Mr. Boland, is a study of the structure of international communications with some of the other interested agencies of Government. We do have some policy questions which need to be reconsidered with the development of transistorized international cables and satellites, and we do that at no additional cost to the Government, we hope.

Mr. OSTERTAG. The TELSTAR comes in under this, does it not?

Mr. HENRY. Yes.

Mr. OSTERTAG. It is rather confusing as to how you as a regulatory agency of our Government can provide joint regulation with foreign nations in this matter. Is that part of the picture insofar as your authority is concerned? How do you do it, by negotiation?

Mr. HENRY. That is in the future because there are no operating

commercial carriers at the moment in satellites. We have our Office of Satellite Communications. We are asking for four additional men there. We need them badly.

What we will do is this: We will regulate and fix the rates of the Communications Satellite Corp. The Communications Satellite Corp. will lease channels to the other common carriers operating internationally; that is, American Telephone & Telegraph, Western Union International, RCAC, and so on.

The Communications Satellite Corp. will participate under some sort of arrangement yet to be worked out.

Mr. OSTERTAG. The statute provides for that, does it not?

Mr. HENRY. We are required by the statute to fix the rates. The Communications Satellite Corp., under terms not yet determined, will operate the satellite system itself along with communication entities from other countries who will have made the decision to participate in the international global commercial satellite system. It will be, we think, a cost-sharing basis between these participants in the global system, or rather a revenue-sharing apportioned according to costs, which in turn will give revenue to the individual participants and we will use that to fix the rates they charge to people who lease channels from them.

It is a rather confusing method, I agree.

Mr. OSTERTAG. It is basically a private corporation?

Mr. HENRY. Totally private.

Mr. OSTERTAG. Subject to Federal regulation?

Mr. HENRY. Yes.

AUTHORITY OVER COMMUNICATIONS SATELLITES

Mr. OSTERTAG. I had the privilege the other day of communicating over the SYNCOM satellite which is in a 22,000-mile synchronized orbit somewhere over the Equator. I talked with a military officer in California over that satellite. What I am getting at, SYNCOM is only an example of future satellites in orbit that will be a means of communication. Perhaps it might be exclusively for military or Government use, but it is here; and it is going to play an increasingly important role in communications.

Do you people have any jurisdiction in that regard or will you eventually have any jurisdiction?

Mr. HENRY. We have full jurisdiction over the commercial satellite systems.

Mr. OSTERTAG. This one was put into orbit by NASA.

Mr. HENRY. The one you are talking about we have no jurisdiction over.

Mr. OSTERTAG. I agree that you do not on this one; but I am talking about what will be in the future.

Mr. HENRY. The answer is "Yes, we do have jurisdiction." We are required to exercise that jurisdiction by the communications satellite legislation, and yesterday the Communications Satellite Corp. filed with us an application for a satellite communications station which they hope to put up in the middle of calendar year 1965.

USE OF COMMUNICATIONS SATELLITES BY OTHER COUNTRIES

Mr. OSTERTAG. If we have such a communications satellite in orbit as the SYNCOM, would other nations be able to use that?

Mr. HENRY. Yes.

Mr. OSTERTAG. And you would not have any way of controlling it, would you?

Mr. HENRY. Yes. To give you an analogy, we have telephone cables now from New Jersey to France. That has to be an international operation because you have to have somebody to talk to. If I call from New York to Paris, the revenues collected as a result of that call are split between the French authorities and the U.S. companies, and it will be in the same manner, roughly.

INTERNATIONAL COORDINATION OF FREQUENCY ALLOCATIONS

Mr. OSTERTAG. We have problems with Canada, do we not, because after all they have licensed radio operators. How do you coordinate the frequencies and rights between Canada and the United States?

Mr. HENRY. The fundamental U.S. policy is that the commercial system will be a global system in which all nations of the world that want to participate will be able to participate. They will work out their own frequency arrangements for use within that system.

There is also an international agreement, completed last October in Geneva, which allocated frequencies for use in space, and that is broken down between commercial satellites, meteorological satellites, and so on.

Mr. OSTERTAG. I have had occasion to be concerned about some of these matters because my area is just across from Lake Ontario, Canada. I know you people have had to deal with that, but it is by virtue of certain allocations?

Mr. HENRY. Yes, internationally made, but very close cooperation will be required.

Mr. OSTERTAG. You do not run into problems where there is a conflict of rights between the other country and our country?

Mr. HENRY. I am sure there will be conflicts and disputes but the groundwork has been laid for their resolution.

APPLICATIONS FOR CABLE LANDING LICENSES

Mr. BOLAND. Page 108, "Applications for cable landing licenses." Put in the table on pages 108 and 109.

(The pages follow:)

Applications for cable landing licenses

The Commission continues to process an increasing number of applications for the installation of modern high-capacity submarine telephone cables. The

following is a summary list of the status of cable systems, existing and planned, owned wholly or partly by U.S. companies:

Cable	*Status*
Transatlantic 1 and 2	In service.
Washington-Alaska	Do.
California-Hawaii 1	Do.
New Jersey-Bermuda	Do.
Florida-Puerto Rico	Do.
Florida-Jamaica	Do.
Jamaica-Canal Zone	Do.
Transatlantic 3	Expected late 1963.
Transatlantic 4	Planned 1965.
Transatlantic 5	Planned 1967.
California-Hawaii 2	Expected late 1964.
Guam-Okinawa	Expected 1965.
Guam-Philippines	Do.
Puerto Rico-Antigua	Do.
Canal Zone-Colombia	Expected 1964.
Florida-Virgin Islands	Expected late 1964.
Virgin Islands-Venezuela	Planned early 1965.
Virgin Islands-Antigua	Planned 1965.
Virgin Islands-Panama	Do.
Panama-Costa Rica-Nicaragua-Guatemala	Planned 1966.
Canal Zone-Ecuador-Peru-Chile-Argentina-Brazil	Do.
Hawaii-Guam-Japan	Expected mid-1964.

In addition to the above, use is being made, or planned, of the worldwide British Commonwealth submarine telephone cable systems either by direct interconnection via Canada and Hawaii or by a connecting cable such as planned between Guam and Australia. It is expected that applications for landing licenses will continue to be filed in 1964 and 1965. Several of these applications, because of the competitive situation in the international telecommunications industry, may give rise to serious problems involving the financial stability of the international telegraph industry which must be resolved. In addition, the proposed interconnection of the United States and British cable systems at Hawaii and Australia will also involve difficult problems regarding routing of traffic, limitations on handling, and other related matters which also must be solved.

INTERNATIONAL CONFERENCES

Mr. BOLAND. Insert in the record the paragraph on page 111 on international conferences.

(The material follows:)

International conferences

It is expected that the conference workload will continue to remain high. A constantly increasing number of meetings is necessary to resolve the growing number of problems which arise because of the continued development in the art. Preparation for and attendance at these conferences, together with implementation of conference decisions, require a continuously larger proportion of staff time. Four conferences are scheduled during fiscal 1964 including the Third Plenary Assembly of the International Telegraph and Telephone Consultative Committee (CCITT) of the International Telecommunication Union; two CCITT study group meetings during fiscal 1965, and a plenipotentiary conference to be held in September 1965. Staff members are expected to attend each of these meetings and conferences as well as perform extensive preparatory and followup work in connection therewith. The staff is also active in the work of the International Radio Consultative Committee (CCIR) in preparing for and attending international meetings.

SPACE SATELLITE COMMUNICATIONS

Mr. BOLAND. Put in the material on "Space satellite communications" at the bottom of page 111 and the narrative on page 112 with respect to space satellites.

(The material referred to follows:)

Space satellite communications

The Commission is given specific responsibilities by the Communications Satellite Act of 1962 which provides for the establishment of a satellite corporation subject to Government regulation. Those responsibilities include approving the technical characteristics of the satellite system to be employed, licensing of satellite terminal stations, and assuring that all communications common carriers will have equitable access to the system on just and reasonable terms and conditions. The Commission is also required, among other things, to insure the maintenance of effective competition in procurement for the system and to pass upon the propriety of all security issues and borrowings of the corporation, except for the initial issue.

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Rate regulation		2.0	5.0	3
Service regulation	9.4	11.4	12.4	1
Total	9.4	13.4	17.4	4

An increase of 4 man-years is requested to provide minimum staffing required to deal with complicated and novel ratemaking problems which will arise particularly at the initial stages of operation of a commercial satellite system and to insure "effective competition" in procurement of apparatus, equipment and services required for the establishment of a commercial communication satellite system.

Rate regulation

Rate schedules must be designed which will be compatible with the financial requirements of the corporation, on the one hand, and which, on the other hand, will be sufficiently attractive to potential users. This will entail appropriate economic and rate studies of the existing and prospective demand for oversea traffic of all types and of the comparative costs of meeting such demands by alternative communication media; i.e., cable, high-frequency radio and satellite systems. The total 5 man-years estimated for this activity will provide the minimum staffing necessary to study and evaluate rate structures and rate levels to be proposed and established by the satellite corporation for the use of its facilities by communication common carriers and other authorized entities.

Service regulation

The estimated total of 12.4 man-years will be devoted to carrying out the wide range of responsibilities vested in the Commission with respect to a determination of appropriate technical characteristics and standards for an operational system; the choice of entity or entities to be licensed for the construction and operation of satellite ground stations in the United States; the processing of applications by the corporation covering its financing program; and the myriad of problems that may be expected to arise and determinations that will have to be made in the process of integrating and interconnecting an operational satellite system into the conventional complex of communication facilities.

HEARINGS

Mr. BOLAND. Also insert the material on hearings on pages 112 and 113.

(The material follows:)

Hearings

This subactivity is comprised of the following functions:

Office of Hearing Examiners.—Hearing examiners preside at adjudicatory proceedings and independently prepare and issue initial decisions which look toward the disposition of such proceedings.

Review Board.—The Review Board decides all appeals for hearing examiners' initial decisions except in those few cases in which the Commission decides to hear the appeal itself. It also decides all appeals from interlocutory rulings by the examiner and acts for the Commission in ruling upon most other interlocutory requests.

Office of Opinions and Review.—The Office of Opinions and Review handles all petitions seeking reconsideration of Commission action designating common carrier applications for hearing. In addition, the Office prepares final decisions in adjudicatory common carrier cases which are not handled by the Review Board.

Dockets Division.—Maintains docket records on all pending hearing cases.

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Hearing examiners	3.4	3.0	3.0	
Review Board	1.1	1.2	1.2	
Opinions and Review	1.2	1.2	1.2	
Dockets Division	1.0	1.5	1.5	
Total	6.7	6.9	6.9	

No increase is requested for hearing matters which will require that this subactivity be maintained at the same level as 1964.

For the current year, 3 man-years are allocated to the Office of Hearing Examiners for common carrier activity. This will be necessary in view of the substantial amount of time which the hearing examiners will be required to devote to these cases with particular reference (*a*) to its increased activity in the microwave and television community antenna areas; and (*b*) to the fact that substantially all of the time of at least two of our employees throughout the current year, and for a portion of fiscal year 1965, will be devoted to the domestic telegraph investigation (docket No. 14650). We believe that 3 man-years will be required in 1965 for common carrier hearing activity.

No increases are requested for the Review Board, Office of Opinions and Review, or for the Dockets Division. It is believed that the workload estimated for 1964 will continue at approximately the same level in 1965.

MERGER OF COMMON CARRIERS

Mr. OSTERTAG. In reference to mergers, you refer to legislation. What type of mergers would that relate to? It is not clear to me as I read this.

Mr. HENRY. The legislation relates to legislation which would permit record carriers that now operate internationally to merge, as opposed to the voice carrier, which is A.T. & T.

EXECUTIVE, STAFF, AND SERVICE ACTIVITIES

Mr. BOLAND. Executive, staff, and service, activities begin on page 114. Put in the entire page 114 down to "Offices of Commissioners." We are familiar with the offices of Commissioners.

(The information follows:)

EXECUTIVE, STAFF, AND SERVICE ACTIVITIES

INTRODUCTION

This Section includes the adjudicatory, top policymaking, and decisionmaking activities for the Commission's basic functions, the direct costs of which have been presented in sections I through V; the coordination and supervisory responsibilities of the Executive Director; the central legal staff; the Secretary's

functions (except dockets); reports and information; and budget, manpower utilization, data processing, office services, and defense coordination activities.

For those organization units for which it is possible to calculate the amount of time and cost chargeable against the individual function the cost is so charged. For example, the Review Board and the Office of Opinions and Review are charged to the functions of the Commission on which that staff works. The same is true for hearing examiners and Dockets Division, Office of the Secretary. The units taken up in this section work on the Commission's several basic programs, but it has not been found worth the administrative effort involved to keep sufficiently detailed time and cost records to distribute their costs to the functions. Hence, they are carried here.

Financial requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Personnel compensation	$2,063,728	$2,439,949	$2,553,746	$113,797
Personnel benefits	151,913	175,414	184,975	9,561
Other obligations	1,468,507	405,835	430,894	25,059
Total	3,684,148	3,021,198	3,169,615	148,417

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
1. Offices of Commissioners	46.8	47.7	48.0	0.3
2. Office of Reports and Information	5.0	5.0	5.0	
3. Office of Executive Director	145.4	180.9	185.9	5.0
4. Office of General Counsel	43.8	44.7	47.7	3.0
5. Office of Secretary [1]	19.9	21.5	21.5	
Total	260.9	299.8	308.1	8.3

[1] Excluding Dockets Division.

DATA PROCESSING

Mr. BOLAND. The narrative on page 119 on data processing is interesting. You are asking for three more people for data processing in 1965.

We will put page 119 and the narrative on page 120 in the record.

(The pages follow:)

Data processing

Manpower requirements

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
Average employment	36.9	55.0	58.1	3.1

The increase requested for 1965 is required to put the Data Processing Division staff on a full-year basis.

The Data Processing Division will mechanize the initial applications on the electronic computer and Dataplotter system in February 1964. This system is designed to improve service to the public by reducing radio application processing time, by performing engineering computations involving a depth of calculation and analysis not practical by any other method, by providing field offices and monitoring stations with up-to-date information on all communications facilities, and by furnishing a means to rapidly analyze licensee data for more effective regulation of the communications industry.

Our "in production" date for the computer system has been rescheduled from July 1963 to February 1964 because of unfortunate delays in preparing our computer site in the new post office building, and because of the fact that the scope and character of the work initially planned for the Broadcast and Safety and Special Radio Services Bureaus changed to the extent that many more man-days of systems design and computer programing have been required to build an optimum mechanized plan. The computer site was completed on October 22, 1963, and the equipment installed in the following month. Since mid-November the computer has been used to test and "debug" programs and to convert, from manual to magnetic tape files, masses of data pertaining to amateur radio licensees and broadcast engineering, stations and individual ownership.

In February 1964, the processing of citizens and amateur radio applications and the printing of licenses will be cut over to the computer.

Concurrently the computer will maintain, retrieve, and analyze data relating to broadcast station ownership for use by the Commission's legal staff. Also starting in February the system will make those computations necessary in all services to determine if proposed antenna towers will create hazards to aviation or cause harmful interference to existing towers.

In April 1964, many of the day-to-day complex engineering problems in connection with the processing of AM, FM, and TV broadcast applications will be performed by the computer. This will permit engineers to spend their time in technical analysis and evaluation of proposed and exisiting broadcast facilities. Also in April 1964, the system will provide for the maintenance and analysis of all frequency and other radio facility data for field offices and monitoring stations.

Starting in the last quarter of 1964 and continuing through 1965 the processing of radio applications in the remainder of the Safety and Special Radio Services, namely, marine, aviation, public safety, and industrial will be converted to the computer system on a phased basis.

An added value of this whole applications processing system, involving approximately 1 million licensees, is the fact that the Commission will have immediate availability to current, accurate information on all outstanding licenses and pending applications. In addition to the safety and special work, plans and programs will also be developed during 1965 for the conversion to the computer system of additional computational work now performed manually by engineers in the Broadcast Bureau and Office of Chief Engineer.

Of the 58.1 man-years requested in 1965, 3 will be concerned with the administration of the program; 13 will be engaged in systems design and programing the computer for the work described; and 42.1 man-years will be devoted to the direct day-to-day operation of the data processing system.

OFFICE OF GENERAL COUNSEL

Mr. BOLAND. Office of General Counsel, page 122, at the bottom of the page. You are asking for three additional people.

Put in the record the table in the middle of page 123 on manpower requirements.

(The table follows:)

Manpower requirements (average employment)

	Actual, 1963	Estimate, 1964	Estimate, 1965	Increase
(a) Immediate Office	6.7	6.8	6.8	
(b) Litigation Division	11.7	10.7	10.7	
(c) Legislation Division	8.8	8.0	8.0	
(d) Administrative Law and Treaties Division	8.2	9.8	10.4	0.6
(e) Enforcement and Defense Division	8.4	9.4	11.8	2.4
Total	43.8	44.7	47.7	3.0

Other Objects of Expense

Mr. Boland. We will turn to page 129 which is your other objects. This remains fairly constant. What is the total increase?

Mr. Henry. $38,000.

Mr. Boland. And it is occasioned mostly by increases in other services. There is a $15,000 reduction in equipment; a $10,000 reduction in land and structures. Insert the summary on page 129.

(The pages follow:)

Consolidated Other Obligations Costs

This section covers all requirements of the Commission for other than personnel compensation and benefits.

The following schedules set forth the actual distribution of these costs for 1963 and estimates for 1964 and 1965 by object class and by major activity.

	1963 actual	1964 estimate	1965 estimate
By object class:			
21 Travel and transportation of persons	$232,851	$245,000	$245,000
22 Transportation of things	42,768	50,000	50,000
23 Rents, communications, and utility services	450,379	440,000	460,000
24 Printing and reproduction	115,948	145,000	145,000
25 Other services	496,526	256,000	299,000
26 Supplies and materials	183,981	210,000	210,000
31 Equipment	1,225,431	456,000	441,000
32 Land and structures	19,085	80,000	70,000
Total	2,766,969	1,882,000	1,920,000
By activity:			
I Technical research and frequency allocation	67,492	109,743	92,944
II Broadcast	163,006	188,510	188,356
III Safety and special radio services	117,695	147,421	156,890
IV Field engineering	852,994	925,214	935,716
V Common carrier	97,275	105,277	115,200
VI Executive, staff, and services	1,468,507	405,835	430,894
Total	2,766,969	1,882,000	1,920,000

Rents, Communications, and Utilities

Mr. Boland. What is the explanation of the increase in rents, communications, and utility services?

Mr. Turner. On rents and utility services, so far as the field is concerned, we do have land next to our monitoring stations that will be used for additional antennas.

Mr. Thomas. Rents, communications, and utility services, you have an increase of $20,000; you have a little minus of $15,000 in equipment; and you have a minus of $10,000 in land and structures. You have an increase of $38,000 altogether.

Mr. Solan. The mail cost is going up.

Mr. Boland. What accounts for the increase shown on page 133?

Mr. Turner. That will be related to the increase in utility costs generally and also in connection with property that is leased by the Commission adjacent to monitoring stations to expand our antenna system.

Mr. Thomas. Printing and reproduction is more or less constant.

Mr. Boland. Any questions?

Mr. Ostertag. Just one general question, Mr. Chairman. Putting the whole picture in a nutshell, with regard to your overall budget requirements, the sum and substance of it is you have an increase of

about $1 million over the last fiscal year and an increase of about 59 in average employment. The largest increase seems to be in the field of engineering. Is that correct?

Mr. HENRY. That is correct.

Mr. OSTERTAG. And of course some substantial part of this increase is due to the pay increase?

Mr. HENRY. That is a good bit of it.

Mr. OSTERTAG. I am just trying to put it all together.

Mr. THOMAS. That summarizes it very well.

Mr. BOLAND. Mr. JONAS?

Mr. JONAS. No questions.

Mr. BOLAND. Thank you, Mr. Chairman and other members of the Commission. It is always a pleasure to have you with us. You are one of our favorite commissions.

Mr. HENRY. You are one of our favorite committees. We thank vou very much for your courtesy here today.

MONDAY, MAY 4, 1964.

FEDERAL AVIATION AGENCY

WITNESSES

N. E. HALABY, ADMINISTRATOR, FAA
NATHANIEL H. GOODRICH, GENERAL COUNSEL, FAA
COLE MORROW, DIRECTOR, AIRPORTS SERVICE, FAA
H. B. ALEXANDER, DIRECTOR OF BUDGET, FAA
FRANK MILLS, CHAIRMAN, PLANNING AND CONTROLS BRANCH, AIRPORTS SERVICE, FAA

SUPPLEMENTAL ESTIMATE FOR GRANTS-IN-AID FOR AIRPORTS

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Grants for construction of airports (total obligations) (object class 41)	65,182	82,004	80,000
Financing:			
Unobligated balance brought forward (−)	−33,186	−43,004	−36,000
Unobligated balance carried forward	43,004	36,000	31,000
New obligational authority (appropriation, permanent)	75,000	75,000	[1] 75,000

[1] $75,000,000 also requested for fiscal year 1966.

Mr. THOMAS. Gentlemen, will the committee please come to order?

We have with us this morning our very able and genial friends from the Federal Aviation Agency, headed by our very distinguished friend and partner, Mr. Halaby, the Administrator; Mr. Goodrich, the General Counsel; Mr. Morrow, the Director of Airports; Mr. Alexander, Director of the Budget; and Mr. Frank Mills.

Mr. Halaby is interested in an item for $150 million for grants-in-aid for airports, as contained in House Document 195.

This item was not transmitted with the regular 1965 budget since the authorization had not been extended. Public Law 88–280, signed March 11, 1964, extends the authorization for 3 years.

Mr. Reporter, at this point in the record will you insert the appropriating language and justifications?

(The material follows:)

AMENDED ESTIMATE OF APPROPRIATION, FISCAL YEARS 1965 AND 1966 GRANTS-IN-AID FOR AIRPORTS

APPROPRIATION LANGUAGE

"GRANTS-IN-AID FOR AIRPORTS

"For grants-in-aid for airports, pursuant to the provisions of the Federal Airport Act, as amended, $150,000,000, to remain available until expended, as follows: for the purposes of section 5(d)(4) of such Act, $66,500,000 for each of the fiscal years 1965 and 1966; for the purposes of section 5(d)(5) of such Act, $1,500,000 for each of the fiscal years 1965 and 1966; and for the purposes of section 5(d)(6) of such Act, $7,000,000 for each of the fiscal years 1965 and 1966" (49 U.S.C. 1101–1106, 1108–1119, as amended by Public Law 88–280).

JUSTIFICATION

The Federal Airport Act, 49 U.S.C. 1101, as amended, authorizes the Federal Aviation Agency to administer a grant-in-aid program that assists public agencies in the Development of the local components of a nationwide system of public airports. Previous authorizations carried this program through fiscal year 1964.

Congress has recently enacted legislation which further amended the Federal Airport Act to authorize additional appropriations of $225 million for grants-in-aid for airports for the fiscal years 1965, 1966, and 1967 with $75 million to be made available for obligation in each of these years. To carry out a program in accordance with the act, the Federal Aviation Agency requests appropriations for fiscal years 1965 and 1966 in the amount of $75 million each year.

Airport planning and development is a long-range undertaking. A major factor in the effectiveness of the Federal aid airport program is the ability of local public agencies, in cooperation with the Federal Government, to systematically plan and program needed airport development over a period of several years. Local agencies must arrange for financing, frequently through bond issues, and must formulate plans for land acquisition, engineering design, and construction. Such actions by local agencies must be supported by assurance that Federal funds will be available when they are needed. This need has in the past been recognized by the Congress through the appropriation of funds in advance of the fiscal year during which such funds will be obligated.

During recent congressional action extending the Federal Airport Act, the forward funding principle was again reaffirmed as being "essential to the realization of an orderly and effective program."

Under the act, the Administrator is required to announce by January 1 of each year the allocations for airport development for the next ensuing fiscal year. It is through these project allocations that commitments are made to the local public agencies that matching Federal funds will be available for specific items of airport development. The process of formulating the project allocations should begin about 9 months prior to the announcement of the program, and the final decisions on and actual announcement of the program cannot be made prior to the appropriation by the Congress of the funds to be obligated during the fiscal year in question. Thus, appropriation of funds at least 1 year in advance of the fiscal year in which such funds are to be obligated is essential to meet the requirements of the act and for the orderly and effective development of the national system of public airports.

The national airport plan, prepared annually by FAA in response to section 3a of the Federal Airport Act, specifies in terms of general location and type of development the projects considered by the Administrator to be necessary in the next 5 years to provide a system of public airports adequate to anticipate and meet the needs of civil aeronautics. The projects included are limited to development eligible for Federal aid under the act.

New airports, and items of development for existing airports, are included in the plan on the basis of criteria that are designed to establish the need for the recommended development. These criteria consider the area and population served by the airport, the number and types of aircraft expected to use the airport, as well as the role of air transportation in the community or area to be served. However, in the plan, projects are ranked in terms of priority for receipt of Federal aid, nor does inclusion of a new airport or an item of development in

the plan constitute a commitment by the Federal Government to participate financially in such projects. Rather, identification of need in the plan is one of the prerequisites for a community's receiving aid under the Federal aid airport program (FAAP).

Communities submit to the FAA specific requests for aid, in which they propose that specific development be undertaken, and demonstrate their own readiness to proceed with such development.

Over the past several years, the requested Federal share of projects proposed by the Nation's communities has amounted to about twice the Federal funds available. Thus, in considering the allocation of FAAP funds, the Agency carries out a formal programing process in which it further refines the application of criteria of aeronautical necessity, and assigns an essentiality rating to the work items, to assure that the available funds are channeled to those projects that have the highest priority in terms of their contribution to the development of an effective airport system.

The current edition of the plan shows that, at the 3,559 existing and proposed airports included in the plan, a total expenditure of $1.08 billion will be needed during the fiscal year period 1963–67 to provide the type of facilities that are eligible for Federal assistance. Of the total of $1.08 billion, $274 million will be needed for land acquisition, $269 million for site preparation, $404 million for paving, $51 million for lighting, $14 million for safety buildings, and $70 million for miscellaneous items of development.

The budget amendment set forth in this submission would provide a total of $150 million, of which $75 million would be available for allocation to the Nation's communities in each of fiscal years 1965 and 1966, as provided by congressional authorization of Public Law 88–280. It is estimated that the 2-to-1 ratio of requests to available funds will continue and thus approximately $310 million is expected to be requested during the 2 fiscal years for eligible items of development.

The following exhibits show—

Exhibit I: Estimated airport development needs during the fiscal year period 1963–67, by State, as shown in the national airport plan.

Exhibit II: Apportionment entitlement of the States of the authorized annual $75 million Federal aid airport program.

AIRPORT DEVELOPMENT INCLUDED IN 1963–67 5-YEAR NATIONAL AIRPORT PLAN

	Estimated cost of NAP development 5-year period		*Estimated cost of NAP development 5-year period*
Alabama	$21,754,000	New Mexico	$14,061,000
Alaska	42,686,000	New York	71,824,000
Arizona	16,749,000	North Carolina	17,979,000
Arkansas	7,541,000	North Dakota	5,203,000
California	144,165,000	Ohio	42,647,000
Colorado	7,682,000	Oklahoma	22,709,000
Connecticut	14,921,000	Oregon	8,396,000
Delaware	1,567,000	Pennsylvania	61,680,000
District of Columbia	0	Rhode Island	1,839,000
Florida	29,838,000	South Carolina	5,333,000
Georgia	28,008,000	South Dakota	6,889,000
Hawaii	33,646,000	Tennessee	10,792,000
Idaho	8,839,000	Texas	51,880,000
Illinois	80,202,000	Utah	2,156,000
Indiana	17,378,000	Vermont	3,117,000
Iowa	8,799,000	Virginia	19,871,000
Kansas	9,590,000	Washington	14,826,000
Kentucky	24,905,000	West Virginia	14,013,000
Louisiana	29,288,000	Wisconsin	11,618,000
Maine	7,627,000	Wyoming	3,267,000
Maryland	20,691,000		
Massachusetts	15,994,000	U.S. Total	1,071,965,000
Michigan	17,406,000		
Minnesota	16,272,000	Puerto Rico	5,386,000
Mississippi	8,196,000	Virgin Islands	5,088,000
Missouri	16,232,000		
Montana	9,854,000	Territory total	10,474,000
Nebraska	8,709,000		
Nevada	3,265,000	Grand total	1,082,439,000
New Hampshire	3,572,000	Approximate Federal share (50 percent)	540,000,000
New Jersey	26,489,000		

Apportionment entitlement of the States of the authorized annual $75,000,000 Federal-aid airport program

	State apportionment entitlement—annual appropriation
Alabama	$806,890
Alaska	3,994,844
Arizona	950,979
Arkansas	607,329
California	3,258,755
Colorado	948,502
Connecticut	390,289
Delaware	78,332
District of Columbia	106,705
Florida	1,096,112
Georgia	946,607
Hawaii [1]	131,618
Idaho	657,532
Illinois	1,793,445
Indiana	895,215
Iowa	763,932
Kansas	859,060
Kentucky	695,524
Louisiana	787,763
Maine	366,734
Maryland	514,350
Massachusetts	778,275
Michigan	1,742,125
Minnesota	1,057,902
Mississippi	629,166
Missouri	1,071,649
Montana	1,088,320
Nebraska	718,232
Nevada	786,796
New Hampshire	147,285
New Jersey	899,232
New Mexico	954,576
New York	2,698,477
North Carolina	$989,872
North Dakota	565,565
Ohio	1,651,795
Oklahoma	796,355
Oregon	901,766
Pennsylvania	1,885,489
Rhode Island	127,824
South Carolina	542,163
South Dakota	615,385
Tennessee	781,577
Texas	3,139,146
Utah	697,789
Vermont	119,165
Virginia	837,737
Washington	873,882
West Virginia	422,155
Wisconsin	997,096
Wyoming	707,687
U.S. total	49,875,000
Hawaii [1]	600,000
Puerto Rico	600,000
Virgin Islands	300,000
Territory total	1,500,000
General Aviation Discretionary fund	7,000,000
Regular discretionary	16,625,000
Grand total	75,000,000

[1] In addition to amount authorized by State apportionment for the State of Hawaii, the State receives 40 percent of special funds for territories or $600,000.

Mr. THOMAS. The authorization calls for a 3-year program of $225 million. What the Agency is seeking this morning is $150 million covering the first 2 years, and that is broken down into about three parts; one, $66,500,000 for general aviation; and, $1,500,000 for Hawaii, Puerto Rico, and the Virgin Islands; and then about $7 million for general aviation.

That last phrase, "general aviation" is a misnomer. It should be spelled out better. It is for what I call "ancillary airports" to serve private planes. Even though Butler Terminal out here at Washington National, as an example, is Government owned, it is on all fours with the proposition. Is that correct, or is it incorrect?

Mr. HALABY. The Butler Aviation Terminal out here at Washington National is part of Washington National Airport, and a very substantial amount of traffic comes through there which is, as you say, "private aviation."

This $7 million is designed to help airports that would draw traffic away from the bigger airports——

Mr. THOMAS. It is an ancillary field, and plays a very vital part.

Mr. HALABY. Yes, sir.

DISCRETIONARY ALLOCATION

Mr. JONAS. What is this $16 million discretionary item, as shown on exhibit II?

Mr. HALABY. As you will recall, Mr. Jonas, the money under the apportionment formula is distributed to each State by population and square miles of territory in each State, and is fixed in the act. There remains after that fixed apportionment, an amount of $16 million which can be allocated without regard to population or square mileage, and that is the portion that can be used, regardless of State boundaries. That has been the case for many years.

ANTICIPATED AMOUNT OF REQUESTED FEDERAL AID

Mr. JONAS. What do you mean by your last sentence in the narrative: "It is estimated that the 2 to 1 ratio will continue" and so forth, and $310 million is the figure requested?

Mr. HALABY. When you tote up all of the plans and programs of all of the airports, all the airport authorities throughout the United States, they tote up twice as much money as is available for grants so the point here is that we are funding about half of the stated airport requirements in the United States.

Mr. JONAS. But then you say $310 million is expected to be requested.

Mr. HALABY. In other words, the sponsors applying for Federal aid will ask for $310 million. We will have, if you approve, $150 million.

Mr. JONAS. I am glad you cleared that up. It isn't really very clearly stated. What you mean is that you expect to receive requests for $310 million, and if you get what you are asking for here, you can take care of half of the request?

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. That is for 2 years?

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. I see.

FORMULA FOR FUND ALLOCATION

Mr. JONAS. Just one other question: Of course I understand the formula. I understand the 50 States and the District are all interested in this money, but how do you arrive at these allocations, is it on the basis of population and square miles?

Mr. HALABY. Yes, sir.

Mr. JONAS. Without regard to need?

Mr. HALABY. Yes, sir.

Mr. JONAS. Regardless of whether one State needs more than its formula and another State needs less, you have to allocate it on the basis of the language in the statute, except for the discretionary fund?

Mr. HALABY. And the $7 million.

Mr. JONAS. Thank you, Mr. Chairman.

Mr. HALABY. As a result, sir, there is always a fairly large amount of this money locked up in the State apportionment, so that in effect it isn't all available, and it never is all used, because it is locked up in the apportionments to States that don't need it.

Mr. OSTERTAG. We went into this whole thing at the time of your regular hearings, as I recall, except that the law has been extended since that time, and this supplemental request is in keeping with the extension of the Airport Act of 1964.

Mr. HALABY. Yes, sir. We sort of presumptively justified the basic need, but we were not able to, at that time, justify the appropriation request, because it was not before the committee and could not be sent up by the President until the Congress passed the act on March 11, 1964.

Mr. OSTERTAG. On the question of this formula, Mr. Jonas raised, are you happy with that, on the basis of area and size?

Mr. HALABY. No, sir, we are not happy with that. We live with it because this is a tradition, and a practice, with regard to many Federal matching aid programs. What we would like, of course, as executives, is to have a considerably larger discretion to put the money where it is needed and not be forced to put it where it isn't needed. Now, we, of course, do not have to spend the money in a State, just because a substantial amount is allocated to that State, if they don't need it, but the effect of the program is to compartmentalize in the 50 States, to cause us to wait until discretionary funds are available through nonuse by a State to deal with the highly congested, densely traveled areas for which there isn't enough money.

Mr. OSTERTAG. Well, actually the allocation may be by States, but in effect, it is local, and airports serving the country know no State boundaries. Therefore, it seems there is a little bit of inequity in this whole system in the allocation of funds.

Mr. HALABY. Exactly as you say, we would like to see a national system of airports that do not respect State boundaries, but provide the best safety and service for all of the population. Sometimes the low priority items in one State get money whereas high priority items in another State have no money available.

Mr. OSTERTAG. Now, next year when FAA presents its budget for 1966, in the meantime, you will have had this $150 million for allocation, and at that point you will be in a position to give us the application of the extension of the following year?

Mr. HALABY. Yes, sir.

Mr. OSTERTAG. So it wouldn't be exactly a gray area; isn't that true?

Mr. HALABY. That's right. We would tell you what we had done with the fiscal year 1964 and fiscal year 1965 money. We would have given you and the public the national airport plan which the act requires us to do.

We would also note who had been able to fund and who had failed to get bonds funded.

LOCAL FUNDRAISING

For example, last week one of the major airports in the country, seeking an expansion, lost a bond funding vote, I think, by 42 out of some 100,000 votes, and I think the real tough problem here is that local taxpayers are often reluctant to spend any more money on the airport, when there are schools and other items that they feel more urgently about.

Mr. OSTERTAG. Let me ask you this: Before you approve new applications for funds for local airport construction, improvement, or development, do you require the local government to provide the financing on their part prior to your consideration of applications?

Mr. HALABY. Yes, sir.

In general we require that they show that their part of the funds will be available.

Mr. OSTERTAG. In practically all instances, is that a mtter of submitting their referendum to the people?

Mr. HALABY. Yes, sir.

Mr. THOMAS. Thank you gentlemen, very much.

LIST OF WITNESSES

	Page
Adams, J. G	667
Alexander, H. B	1066, 1439
Allred, O. H	605
Ammann, A. V	45
Andolsek, L. J	86
Armistead, N. L	45
Aronov, Edward	1
Bacon, R. F	1066
Barr, J. E	1329
Bartley, R. T	1329
Basnight, A. O	1066
Bates, G. P., Jr	1066
Beaty, Jack	29
Becker, W. E	605
Berlin, S. S	86
Black, D. S	793
Blatt, J. D	1066
Boyd, A. S	667
Brickfield, C. E	201
Brown, A. J., Jr	605
Brown, F. S	793
Brown, F. W	667
Bucknell, R. H	201
Budd, P. J	200
Buffington, J. V	917
Burkhalter, W. M	29
Burns, F. J	200
Capar, Wesley	793
Cary, W. L	605
Cohen, M. F	605
Conwill, A. F	605
Cook, C. C	200
Corcoran, Thaddeus	45
Cox, K. A	1329
D'Alesandro, Thomas, Jr	29
Davenport, H. F	1
Dean, A. L	1066
deLaittre, John	45
Delaney, J. A	917
Dervan, J. M	201
Dixon, P. R	917
Donaty, F. J	605
Drinkard, C. B	200
Driscoll, E. J	667
Driver, W. J	200
Duggar, C. W	200
Edwards, Herman	1
Egbert, Miss Elfrieda	29
Elman, Philip	917
Engle, Dr. H. M	201
Everett, H. V	1
Fable, R. C., Jr	200
Farmer, A. W	201
Fernsterstock, H. W	29
Fleischer, Arthur, Jr	605
Ford, F. W	1329

	Page
Frazier, E. S	45
Freeman, S. D	793
Garver, J. C	200
Gercke, J. J	917
Gillilland, Whitney	667
Gleason, J. S., Jr	200
Glendening, W. P	917
Gluckman, Dr. E. C	201
Goodrich, N. H	1066, 1439
Gorman, E. J	200
Gotschall, G. P	917
Grant, Lt. Gen. H. W	1066
Gundlach, W. B	201
Gurney, Chan	667
Haggerty, R. F	29
Halaby, N. E	1066, 1439
Hamill, J. A	86
Harrison, Miss Evelyn	86
Hartwig, L. E	29
Harvey, A. D	1066
Henderson, G. D	605
Henderson, J. M	917
Henry, E. W	1329
Hershey, Lt. Gen. L. B	1009
Hobbs, G. W	1066
Hood, F. R	200
Hord, W. H	667
Horne, H. E	45
Husband, W. H	45
Hyde, R. H	1329
Iliff, Col. W. S. Jr	1009
Irish, Frederick	917
Irons, W. B	86
Jensen, Lt. Col. M. O	1009
Johnson, Kimbell	86
Kiernan, T	201
King, D. S	1066
Klippen, Dr. A. J	201
Layton, P. R	917
Lee, R. E	1329
Leng, R. B	1066
Loevinger, Lee	1329
Loomis, P. A. Jr	605
Loveless, H. C	29
MacIntyre, A. E	917
Macy, J. W., Jr	86
McAnsh, A. T	200
McCoy, W. M	201
McMurray, J. P	45
McNinch, D. J. H	201
Miller, J. G	201
Miller, V. P	200
Mills, Frank	1439
Minetti, G. J	667
Monk, A. H	200
Moore, G. S	1066
Morrow, Cole	1066, 1439
Mueller, W. F	917
Munson, D. M	1066
Murphy, D. J	917
Murphy, R. T	667
Musser, Dr. M. J	201
O'Connor, L. J., Jr	793
Oganovic, N. J	86
Parmelee, G. C	201
Pilcher, M. A	793

	Page
Plummer, C. B.	1329
Poissant, W. A.	201
Provan, J. R.	1066
Reilly, J. R.	917
Renton, R. J.	1329
Rosen, D. I.	201
Ross, C. R.	793
Roth, Irving	667
Ruddock, A. E.	86
Russell, J. B.	667
Saul, R. S.	605
Schweickart, L. G.	200
Scott, K. E.	45
Semple, P. T.	29
Shank, R. J.	1066
Shea, J. W.	917
Sheehy, J. E.	917
Sheridan, J. B.	1329
Shytle, J. D.	200
Silberman, E. R.	201
Simpson, W. R., Jr	1
Slosberg, Hilburt	1329
Smith, Hamilton	1
Snow, W. B.	917
Snyder, J. W.	917
Solan, R. F.	1329
Solomon, R. A.	793
Stahl, O. G.	86
Stancil, J. W.	200
Strassburg, Bernard	1329
Stratton, A. W.	201
Stringer, H. D.	917
Sweeny, C. A.	917
Swidler, J. C.	793
Tanguay, L. H.	667
Thomas, D. D.	1066
Thomas, P. H.	201
Timm, Dr. O. K.	201
Trainor, H. J.	793
Turner, B. E.	200
Turner, G. S.	1329
Uhlenhop, W. B.	86
Underwood, W. O.	200
Vierling, B. J.	1066
Wald, H. P.	793
Walters, L. M.	45
Wanner, J. H.	667
Warren, L. E.	1066
Washington, W. E.	1
Watson, J. C.	667
Watters, F. F.	793
Werner, Walter	605
Wheelock, J. N.	917
White, M. S.	1066
Willey, R. H.	1066
Williams, D. F.	86
Williams, S. L.	917
Wise, R. W.	201
Woodside, B. D.	605
Woodward, H. C.	793
Worthy, E. H.	605
Young, L. P.	605
Zink, Dr. L. A.	201

INDEX

C

	Page
Civil Aeronautics Board	667
Accomplishments	674
Accident investigation	672, 699, 755
FAA personnel engaged in	756
School for	672, 711
Airfreight carriers	669
Airfreight, cost of	669
Air taxi promotion	683
Board meetings	701
Carrier services	683
Consolidation of truck carriers	695
Continuation of existing programs	684
Economic condition of aircraft industry, efforts to strengthen	680
Economic enforcement	743
International aviation agreements	741
Joint Board	685
Loan guarantee program	686, 727
Local service stops	681, 718
Positions engaged in use-it-or-lose-it function	681
Long-distance rates	675
Nonscheduled carriers	676
One-class service	698
Organizational improvements	671
Payments to air carriers	687, 776
Basis for subsidy	734
Debt-equity ratio of local service carriers	785
Formula for	783, 787
Items disallowed	788
Helicopter subsidies	687, 691
Los Angeles operation	694
Investment of subsidized carriers in related activities	785
Local service subsidy	689
Northeast airlines	695, 782
Operating results of local service carriers, 1959–63	791
Part 45 carriers	677
Passenger traffic	670, 782
Reassessing economic needs of local service carriers	788
Reduction in subsidy	738, 789
Service mail and subsidy payments, 1954–63	693
Subsidized carriers, number of	738
Subsidy staff, functions of	739
Problems in 1965, major	684
Rates and fares	670, 676, 679, 724
Authority to set	734
Discounting of tickets by foreign carriers	746
Family plans	680, 697
First class	698, 733
Local service carriers	732
Reduction of	729
Staff, reduction in	733
Route cases	702
Routes:	
Extension of	740
Jurisdiction over international	703

29-287—64—pt. 1——92

Civil Aeronautics Board—Continued — Page

- Salaries and expenses — 671, 709
  - Accounting regulations and audits — 748
  - Administrative services activities — 764
    - Legal staff activities — 766
  - Computer system, cost of — 717, 774
  - Employment, decrease in — 711, 712
  - Executive staff activities — 759
  - Hearing examiners — 747
  - Operating authority and practices — 715
    - Computer staff — 717
    - Emergency preparedness — 723
    - Intercorporate agreements — 719, 722
  - Safety activities — 755
  - Secretary, Office of the — 763
  - Statistical and research activities — 751
  - Travel costs — 714
- Supersonic transport, financing of — 689
- Supplemental carriers — 676, 678
- Truck carriers, consolidation of — 695
- Use it or lose it standards. (*See* local service stops) — 681, 718

Civil Service Commission — 86

- Annuities under special acts — 138
- Employees life insurance fund — 184
- Fund raising in the Federal service — 193
- Government payment for annuitants, employees health benefits fund — 140
  - GAO report on health benefits coverage for employees in nonpay status — 143
- Investigation of U.S. citizens for employment by international organizations — 134
- Investigations revolving fund — 190
- Payment to the civil service retirement and disability fund — 163
  - Appropriation after fund is exhausted, annual — 179
  - Condition of fund and proposal for long-term financing — 165
  - Contributions by the Government — 177
  - Financing of — 93
- Retired employees health benefits program — 153
  - Combination of administrative expenses for health funds — 157
  - Increase in contributions to — 159
  - Limitations and obligations — 159
  - Negotiation of insurance contracts — 162
  - Rates — 161, 162
- Salaries and expenses — 96
  - Administration of the retirement system — 105
  - Appellate functions — 108
  - Billings from General Services Administration — 128
  - Boards of civil service examiners — 111
  - Breakdown of expenditures — 127
  - Career development and training — 115
  - Communications costs — 127
  - Developing programs and standards — 107
  - Employment:
    - Federal — 87, 89
      - Transfers due to reductions in force — 88
      - Turnover rate — 87
    - In Civil Service Commission — 94
    - Summer — 199
  - Equipment — 129
  - Executive and administrative services — 126
  - Inspections — 104
  - Investigations — 102
  - Pay increase costs — 92
  - Placement of personnel — 110
  - Recruiting and examining — 100

F

Page

Federal Aviation Agency 1066
Accidents (*See* Operations.)
Accomplishments 1105
Airways, cost of maintaining 1116
Appropriations, increase in 1096, 1098, 1114
Appropriations versus workload 1116
Budget for 1965:
Compared with 1964 1181
Reduction from 1964 ..... 1071, 1099, 1152
Summary of 1178, 1180, 1327
Buildup of 1096, 1098, 1114
Competition, foreign 1076
Dulles International Airport:
Concession contracts 1324
Construction 1315, 1318
Operation and maintenance 1314, 1317
Amortization of 1321
Losses 1321
Passenger traffic 1320, 1323, 1324
Roads 1322
Employment:
Authorized positions and actual employment 1143, 1154
Average 1142
History and forecast 1097
Level of, current 1140
Number of employees versus number of aircraft 1095
Personnel turnover 1139
Positions, decrease in 1069, 1119, 1140
Productivity of employees 1118
Total and personnel costs 1153, 1178
Facilities and equipment 1283
Aircraft and related equipment 1302
Rental of aircraft 1304
Airports in United States 1077
Airports, jurisdiction over private 1080
Air traffic, control of 1299
Automation equipment 1288, 1293, 1297
Altitude and identification equipment 1117, 1290, 1293
Centers to be provided 1290, 1297
Requirements, future 1298
Centers, towers, and stations, difference between 1301
Instrument landing system 1298
NASA system of control, comparison with 1297
Obligations 1296
Oklahoma City repair operations 1327
Procurement of equipment 1291
Radar approach control 1299
Flight service stations:
Communication with 1099
Consolidation of 1093, 1145, 1150, 1301
Number remaining after 1149
Savings due to 1150, 1151
Need for 1147
Grants-in-aid for airports 1278
Supplemental request for funds 1439
Growth in aviation 1072
Military functions 1121
Integration with military system, status of 1132
Percent of budget related to 1131
Violation of Federal air regulations by military services 1130
Operations 1183
Accidents, aircraft 1243
Brooklyn accident 1158
Elkton, Md 1162
Legal suits as result of 1155
Midair collisions 1112
Statistics 1082, 1084, 1244

Federal Aviation Agency—Continued
Operations—Continued
Page
Aircraft, number of United States 1074, 1077
Airport program, administration of 1265
Aircraft operations at airports, number of 1077, 1078
Airport projects, number and selection of 1270, 1274
Allocation of funds for new and existing airports 1277
Federal Airport Act, amendment to 1276
Municipalities, contributions of 1269
Overhead costs 1271
Planning 1273, 1276
Control over aircraft 1102, 1299
Facility installation and technical support 1193
Fees, landing 1263
Flight standards program 1216
Maintenance of traffic control system 1203
Medical standards, administration of 1101, 1104, 1224
Duplication in medical research 1232
Employment 1233
Research on time zone effects 1239
Supersonic aircraft program 1231
Wake Island, responsibility for 1236
Midair collisions 1112
Operation of air traffic control system 1186
Overhaul of aircraft 1089
Research direction 1241, 1250, 1256
Taxes, aviation-type 1114
User charges 1114, 1326
VFR flight plans 1100
Washington headquarters staffing 1139
Western region headquarters space 1068
Pay increases 1069
Pilot magazine, article in 1091
Productivity of employees 1118
Research and development 1160, 1246
Compared with total budget 1161
Contracts 1160, 1163, 1258
Controversial projects 1253
Defense Department, use of research done by 1161
Overhead costs 1250, 1254
Positions, types and number of 1256
Programs projected for 1965 1260
Project Little Guy 1264
Time zone effects 1239
Total research and development program 1255
Staff and supporting services budget 1119, 1120
Supersonic transport, development of 1163
Additional funds and authorization for 1172
Agency to administer program 1175
Concorde aircraft 1173
Contributions of manufacturers 1166
Deposits received for aircraft 1171
Market for aircraft 1174
Medical standards involved in 1231
Proposal received from U.S. corporations 1166
Return on investment 1174
Sonic boom tests 1176
Status of 1170
Supplemental funds:
Airport program 1152
Possibility of need for 1151
Washington National Airport:
Construction 1307, 1311
Hangar, replacement of 1325
Operation and maintenance 1305, 1309, 1312

	Page
Federal Communications Commission	1329
Applied technical research and frequency allocation	1375
Backlog in processing applications	1333
Broadcast activities	1338, 1380
Editorializing on television	1367
Fairness doctrine	1361, 1364, 1367
Broadcaster's responsibility	1363, 1368
Equal time provisions	1364, 1365
Monopolies	1351
Network study	1389
Ownership of radio and TV stations	1353
Television applications	1384
Factors influencing granting of	1390
Television licenses, period of	1367
Research and education	1387
Budget for 1965, summary of	1369
Common carrier activities	1413
Accounting regulation	1428
Radio regulation, domestic	1424
Telegraph investigation, domestic	1415
Telegraph rate regulation, domestic	1421, 1424
Telephone rate regulation, domestic	1416
Computer	1333
Savings from	133
Employment	1372
Executive, staff, and service activities	1435
Excise tax on television sets	1346
Fees	1331, 1351, 1372
Field engineering and monitoring	1399
Advertising, authority over	1359
Complaints	1404
Interference	1404, 1406, 1408
Mobile TV enforcement units	1412
Search and rescue operations	1412
Pay increases	1332, 1371
Safety and special radio services	1391
Salaries and expenses	1329
Satellite communications, regulation of	1430
Ultra-high-frequency television project:	
All-channel receivers	1348
All-channel receiver law	1346, 1349
Closed-circuit television	1340
Future of	1347
Pay television	1343
UHF stations:	
New York City station	1348, 1350
Number of	1347, 1385
Federal Home Loan Bank Board	45
Administrative expenses	45, 84
Board and staff officers	66, 68
Examinations and Supervisions, Office of	57, 70
Examination of institutions	57
Workload	75
Supergrades	67
Assets of Federal home loan banks	70
Dividend increases	56
Federal Savings and Loan Insurance Corporation	77
Associations not under insurance system	57, 64, 68
Insurance losses	82
Financial statements	59
Foreclosures	51, 52
New members	73
Nonadministrative expenses	46
Reserves	54, 62
Savings and loan associations	48, 52, 57

	Page
Federal Power Commission	793
Criticism of	807, 812
Electric power industry	822, 872
Accounting, uniform	880
Dividends of electric companies	835
Filing requirements	834, 840
Interstate transactions, definition of	842
Jurisdiction over	822, 835
Companies not filed with FPC	833
Cooperatives	844
Degree of Federal regulations	840
Suppliers subject to FPC jurisdiction	829
Voluntary compliance with Federal Power Act	839
Power companies, number of	881
Printing and reproduction	883
Publications	882
Rate case workload	877
Rates	823, 875, 877
Size of industry	843
Survey of national power	876
Federal river development projects	892
River basin studies	899
Natural gas industry	858
Accounting and Finance, Office of	870
Activities in 1961	846
Backlog in pipeline rate cases	815
Cases suspended by prior Commission	847
Census of industry	872
Certificates of convenience and necessity	864
Gas reserves	868
Permian Basin case	816, 819
Questionnaires	841
Rate cases	861, 863
Refunds	862
Regulation of natural gas, status of	817
Size of industry	843
Staffing	859, 866
Non-Federal hydroelectric projects	884
Collections	891
Recapture provisions of Federal Power Act	889
Regulatory functions of, collapse of	807
Salaries and expenses	793
Automatic data processing	907
Collections	856
Commissioners' staff	854
Consultants	902
Employment:	
Increase in	805
Reduction in	912
Turnover of personnel	866
Hearing examiners	855
Legal staff	879
Other objects of expense	901
Printing and reproduction	910
Regional offices and employment	895
Summary of budget by activities	851
Travel costs	904
Federal Trade Commission	917
Antimonopoly program:	
Authority of, statutory	964
Budget for 1965, reduction in	950
Commissioners and Commissioners' offices	967
Compliance program	942, 948
Comptroller, Office of	971
Computer purchase	974

Federal Trade Commission—Continued — Page

- Deceptive practices — 928
  - Advertising, false and misleading — 936
  - Bureau of — 990
  - Cigarette advertising — 933
  - Clinical testing — 928, 930
  - Pricing guides — 946
  - Tetracyclin drug — 947
  - Vitamin and health foods — 933
  - Wool, Fur, and Textile Acts, enforcement of — 938
- Economics, Bureau of — 945, 950, 1002
- Polyethylene and polypropylene industry, economic survey of — 951
- Employment:
  - Annualized positions — 924
  - Growth in — 924
  - Number of employees compared with appropriations — 923
  - Promotions — 926
  - Summary of — 967
  - Supergrades — 926
  - Turnover of personnel — 925, 969
- Executive Director, Office of — 968
- Export trade responsibilities — 1008
- Field Operations, Bureau of — 998
- Food and Drug Administration, jurisdiction of — 929, 931
- General Counsel, Office of the — 977
- Industry guidance — 935, 940, 948
  - Bureau of — 1001
- Other expenses — 1004
- Restraint of Trade, Division of — 982
  - Workload — 944
- Salaries and expenses — 917
- Secretary, Office of the — 975
- Textiles and Furs, Bureau of — 993

N

National Capital Housing Authority — 1
- Operation and maintenance of properties — 1
  - Accelerated maintenance — 8
  - Accelerated public works program — 8
  - Administrative costs — 24
  - Applications for housing — 3, 26
  - Collection of rent — 10
  - Demonstration program — 10
  - Elderly units — 5
  - Housing units, number of — 3
  - Income of tenants — 7
  - Leases from private landlords — 10
  - Low rent units, need for — 26
  - Receipts, reserves, and subsidy — 7
  - Residency requirements — 27
  - Turnover rate — 4
  - Welfare tenants — 5

R

Renegotiation Board — 29
- Completed and assigned cases — 40
- Contracts reviewed — 41
  - Incentive — 42
  - Research and development — 44
- Extension of Renegotiation Act — 32
- Salaries and expenses — 29
- Workload related to personnel and costs — 36

S

	Page
Securities and Exchange Commission	605
Broker-dealer inspections	618, 660
Communication costs	662
Comptroller, Office of	659
Computer, rental of	635, 638
Corporate Regulation, Division of	617, 655
Corporation Finance, Division	634, 649
Cost of investigations and enforcement actions	618
Equipment	663
Expenses, summary of other	661
Fees	616, 664
Foundations, regulation of funds of	627
General Counsel, Office of	646
Criminal proceedings	634
Hearing Examiners, Office of	633, 645
Increases requested for 1965	643
Investigations and enforcement	626
Investment companies	606
Jurisdiction of	641
Legislation, proposed	641
Opinion Writing, Office of	648
Pay act costs	665
Personnel:	
Growth in number of	640
Reduction in	635
Program Planning, Office of	629, 630, 643
Regional offices	658
Regulation of investment and public utility holding companies:	
Insurance companies and mutual funds	614
Investment advisers	619
Recoverable costs for inspection by	625
Investment Advisers Act, authority under	623
Investment advertising	621
Rental of computer	635, 638
Rental of office space	636, 663
Salaries and expenses	605
Supplies and materials	663
Trading and Markets, Division of	626, 651
Supervision and regulation of securities markets	627, 629
Report of special study of securities markets	636, 639
Selective Service System	1009
Employment	1023, 1024
Increase in	1042
Personnel cost increases	1041
Personnel turnover	1044
Increases requested	1041
National administration, planning, training, and management	1024
Defense Department, survey for	1031
Regional offices	1029
National Advisory Committee on the Selection of Physlians, Dentists, and Allied Specialists	1062
National Selective Service Appeal Board	1064
Pay act costs	1035
Reenlistment incentives	1016
Registration, classification, and induction	1037
Acceptance standards	1011
Changes in number of inductees	1011
College students, deferment of	1014, 1015
Married men, deferment of	1013, 1015, 1017
Number of registrations compared with Census Bureau figures	1020
Cost and workload by activity	1055
Files	1057
Salaries and expenses	1009
State administration, planning, training, and records servicing	1033

V

	Page
Veterans' Administration	200
Automation	224
Budget for 1965:	
Compared with 1964	211, 239
Congressional Liaison Service	258
Construction of hospital and domiciliary facilties	585
Administrative and operating costs	598
Architectural and engineering funds	601
Equipment	601
Budget for 1965 and future requirements	589
Fallout shelters	589
Hospitals:	
Chicago hospital	593, 594
Modernization of	590, 595
New and replacement hospitals	597
San Juan, P.R.	588
Standardized plans	593
Data Management, Department of	204, 295
Data processing centers	300
Data processing equipment	302
Employment	299
Payroll system, automation of	298
Employment	235
Doctors employed and turnover	464
Employee turnover	308
Level of	224
Expenditure level, future	221
Field installations	249, 251
GAO report on property management	227
General operating expenses (*see also* individual departments, this index)	240
Administrative Services, Office of Manager	290
Automatic data processing, reductions due to	330
Breakdown by departments, 1963–65	243
Controller	292
Employment in controller-type functions	342
Field installations	249, 251
General administration	244
Administrator, Office of the	246
Information service	247, 253
General Counsel, Office of the	255
Congressional liaison service	258
Malpractice claims	263
Tort claims	259
Management and evaluation	275, 283
Emergency planning and security service	285
Supply management service	287
Personnel, Office of	273
Procurement policies and procedures	281
Veterans' Appeals, Board of	265
X-ray film development equipment, purchase of	201, 277
Medicine and Surgery, Department of	414
Area medical offices	250, 452, 457
Beds:	
Number of hospital	213, 215
Nursing home	214, 215
Budget for 1965	416
Compared with 1963 ad 1964	426
Summary of	426
Canteen service revolving fund	572
Construction, administrative cost of	447
Employment (*see also* Medical Administration, below)	418
Wage board employees	419
Equipment, X-ray film development	201, 277

Veterans' Administration—Continued
Medicine and Surgery—Continued Page
General post fund, national homes 583
Medical administration and miscellaneous operating expenses 433
Cigarettes, free distribution of 441
Consultants, medical 436, 465, 468
Medical administration 443
Area medical offices 250, 452, 457
Employment and costs 485
Layers of supervision 454, 455
Other objects of expense 457, 459
Printing and reproduction 457
Trainees, number of 462
Medical education and training 460
Medical and prosthetic research 468
Doctors engaged in, number of 439
Grants, research funds from 441, 466
Level of 438, 439
Medical research 471
Aging 476
Cancer 482
Coordination of research effort 483
Costs, increase in 474, 477
Mental 481, 484
Prosthetic research 485
Medical care 490
Alcoholism, treatment of 552
Beds, number of hospital 420
Costs, increase in 418, 420, 432
Employment 492
Hospitalization of veterans 422
Recoveries from veterans 424
Inpatient activities 495
Alcoholism, treatment for 552
Changes in programs 509, 513, 521
Classification of patients 500
Contract hospitalization 541
Cost per patient day 526
Costs, by activity 515
Domiciliary care 547, 555
Restoration center program 549, 551, 555
Drugs, medicine, and medical supplies 521, 522
Food costs 535
General hospitals 537
Hospital per diem costs 523
Length of stay of patients 499, 501
Neuropsychiatric hospitals 506, 507, 512, 531
Nursing bed care program 512, 572
Patient load 503, 511
Service-connected and non-service-connected patients 498
Staff to patient ratios 530
State homes 560
Tuberculosis beds, conversion of 506
Waiting list 505
Outpatient activities 561
Clinics, number of 569
Patient load 417, 421
Patients treated 421, 429
Motor vehicles, replacement of 571
Nursing home program 213, 215
Patients, number of 417, 421
Pay act costs 432
Planning for medical facilities 454, 455
Quality of medical care 415, 417, 421, 425
Rental, maintenance, and repair of quarters 575
Supply program 577
Workload 417
X-ray film development equipment, procurement of 201, 277

Veterans' Administration—Continued Page
Michigan, properties handled in 228, 233
Pay act costs 211
Personnel compensation and employees benefits 236
Population trends, veteran 222
Regional offices 249, 251
Spanish-American War veteran 349
Supplemental appropriations for 1964 210
Supply program 577
Trends in veterans' programs 221
Unobligated balances 212
Veterans Benefits, Department of 304
Adjusted service certificate fund 389
Compensation and pensions 343
Burial allowance 347
Caseload 348
General operating expenses 315
Legislation, recent 345
Spanish-American War veterans 349
World War I veterans 350, 353
General operating expenses (*see also* individual programs) 307, 309
Office Services, Field 338
Communications 339
Workloads, major 314
Grants to the Republic of the Philippines 366
Insurance and indemnities, veterans' 364
Automatic data processing, reductions due to 330
General operating expenses 329
Insurance dividend, prepayment of 225
Personnel handling, number of 227
Loans:
Acquisitions and sales 230, 231, 323, 383, 409
Michigan, properties in 228, 233
Central office loan supervision 325
Direct 368, 405
Amount of loans 370
Average loan amount 322
Borrowing authority 370, 371
Charges against, authorized 406
Expenses of revolving fund 411
Financial condition 381
Loan costs 378
Losses on 377, 407
Profit, source of 411
Sale of loans 376
Treasury advances and balances 406
Dwellings, types of 402
Eligible veteran borrowers 376
Field and central office operations 325, 398
Authority of field offices 404
Foreclosures 402, 407
Costs 233
Locations 325
Number of 380
Rates 231, 234
GAO report on property management 227
General operating expenses 319, 372
Employees, number and location of 323, 327
Grades of officers and employees 405
Workloads 320, 400
General situation in 223
Loan guarantee revolving fund 381
Appraisals, cost of 399
Financial condition 386
Limitation on fund 387, 410, 413
Location of employees 397
Losses 384, 412
Sale of vendee loans 410

Veterans' Administration—Continued
Veterans Benefits—Continued
Loans—Continued
Page
Losses 384, 412
Properties acquired and on hand 383, 409
Rental of properties 408
Repairs and modernization loans 403
Rural and urban loans 321
Types of loans made 322
Merger with Department of Insurance 243, 250
National service life insurance fund 395
Peacetime benefits 223
Pension requirements and benefits 352
Readjustment benefits 358
Automobiles 362
Education and training 361
General operating expenses 316
Service-disabled veterans' insurance fund 390
Soldiers' and sailors' civil relief fund 392
Veterans' special term insurance fund 394
Vocational rehabilitation and training 206, 220
Revolving fund 388

KANSAS STATE UNIVERSITY LIBRARY
MAY 26 196
MANHATTAN, KANSAS

KANSAS STATE UNIVERSITY LIBRARY
MANHATTAN, KANSAS
MA
196 28